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STATE AUDITOR'S  
INTERIM TRANSITION AUDIT REPORT ON CERTAIN ACTIVITIES  
OF THE  
OFFICE OF THE STATE TREASURER AND RECEIVER - GENERAL

AS OF JANUARY 20, 1999

OFFICIAL AUDIT REPORT

MAR - 9 1999

ISSUED BY THE  
Department of the State Auditor



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## INTRODUCTION

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The Treasurer and Receiver-General, an elected constitutional officer of the Commonwealth, has direct jurisdiction over the Office of the Treasurer and Receiver-General and the State Board of Retirement, and budgetary control of the Emergency Finance Board. In addition, the Treasurer is the chairman of the State Lottery Commission, and, although not within the Treasurer's purview, the Massachusetts Cultural Council is budgeted under the Office of the Treasurer and Receiver-General. The office is responsible for a variety of financial functions, including receiving and managing all funds paid to the Commonwealth; issuing and managing the state's long-term debt; issuing short-term debt and managing the Commonwealth's cash flow; paying retirees; administering the pension system for state employees and retirees; and processing and paying the Commonwealth's bills, in concert with the Office of the State Comptroller. The Massachusetts General Laws, Chapters 158 and 200A, also assign to the office the responsibility for receiving, safeguarding, and liquidating property that has been transferred to the office from abandoned-property holders. In addition, the Treasurer is statutorily required to serve on numerous boards and commissions (on several of which the Treasurer ex officio serves as chairman); maintains ex officio appointment power to several Commonwealth boards and commissions, and is statutorily mandated to issue various annual reports regarding state finances to other state officials, including the Commissioner of the Department of Revenue, the General Court, and the Attorney General, and to the municipalities within the Metropolitan Park District.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws and in consideration of the most recent state election, whereby a new State Treasurer and Receiver-General was elected, we conducted a transition audit of the financial activities, accounts, functions, and the related systems and control environment of the Office of the Treasurer and Receiver-General through the date of transition, January 20, 1999. The purpose of our review was to inform the new Treasurer of the status of fiscal and administrative operations as of the date of her assuming office to enhance the transition from the prior administration to the new administration. Our report identifies certain prior administration operations that lacked adequate fiscal, administrative, and accounting internal controls. The recommendations in the report are to assist the new administration in implementing its internal control structure and fiscal and administrative operations to ensure that they are adequate to minimize the occurrence of errors, mistakes, or illegal acts and that the office is run in an economical, effective, and efficient manner and in compliance with all applicable rules, regulations, and laws.

We thank and commend the Treasurer and her staff for their attention and cooperation during the audit and their commitment to working with us and with the Office of the State Comptroller in implementing necessary corrective action measures to improve the operation of Treasury functions. We are issuing this report as an interim report in order to assist Treasury management's expeditious corrective action, are continuing our review, and will issue a subsequent report dealing with any conditions that warrant reporting and disclosure. Our continuing review is intended to determine the adequacy of major systems that have a material impact on the control environment at the time of transition.

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During the course of our audit, certain questionable activities occurred relating to the Unclaimed Check Fund, which has resulted in a criminal investigation by the Attorney General's Office. Accordingly, we are issuing this report on an interim basis in order to assist Treasury management to make timely corrective action. We are, however, continuing our review along with the Treasury and Office of the State Comptroller in order to review the adequacy of all major systems that have a material impact on the control environment at the time of transition and that warrant reporting, disclosure, and further corrective action. Any review or disclosure of any matters as they relate to the ongoing criminal investigation is precluded for that reason.

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- a. Inadequate Controls over Abandoned Property: Our audit disclosed that the office lacked an adequate internal control environment in the processes by which it receives, records, inventories, monitors, safeguards, and liquidates property that has been transferred to it from abandoned-property holders. Specifically, receipts of abandoned property were not accurately documented, deposited in a timely manner, and thoroughly inventoried and secured. As a result, the rights of property owners were not adequately protected against loss or misappropriation. In addition, we found that the office did not manage and liquidate physical property in a timely manner consistent with the provisions of Chapter 200A, Section 9, of the General Laws. Our review and observation of certain abandoned property stored within a Treasury vault at the State House disclosed that property was maintained inside the safe in a haphazard and disorganized manner. Moreover, we were informed that only two individuals had the combination to the safe (one of whom was a former employee) and that the safe's combination was never changed during the last eight years. 8
- b. Abandoned Property Division Operating Procedures Are Not in Accordance with Certain Provisions of the General Laws: Our review disclosed that the operating procedures of the Abandoned Property Division did not fully comply with all applicable provisions of Chapter 200A of the General Laws. Specifically, the division did not include the names of owners of tangible abandoned property received from banking institutions and hospitals, as well as the payees of state unclaimed checks, on the annual publication of abandoned-property owners; did not meet annual statutory mandated publication requirements; improperly entitled the listing of unclaimed property owners for questionable purposes; and did not publish the listing in all counties of the Commonwealth. In addition, the office had not taken steps to ensure that all holders of abandoned property were aware of statutory reporting and transfer requirements. 13
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identification of abandoned property not transferred by holders in accordance with the Massachusetts General Laws has not proven to be prudent or cost-effective. Our review indicated that the Request for Responses for such accounting services did not contain: the specific number of reviews required to be conducted annually; the performance criteria outlining specific audit procedures and compliance review requirements; the specific content requirements of monthly interim engagement reports, such as the number of reviews started, the status of reviews in progress, and the number of reviews completed; and the minimum standards for potential firms' knowledge of abandoned property laws or experience in conducting abandoned property compliance reviews as an absolute prerequisite of contract issuance. Moreover, our review disclosed that, during the time period in which additional private accounting firms were used, there was a decline in the number of compliance reviews completed; a reduction in the amount of funds remitted to the Commonwealth from \$17.7 million for fiscal years 1993 and 1994 combined to \$227,607 in fiscal year 1995; and a reduction in the ratio of funds remitted to the Commonwealth to fees paid to private accounting firms from 17.89 to 1.24. Over the next 3 ½ years, \$9,870,436 of funds was remitted for an average of \$2.8 million per year. During this 3 ½ year period the ratio of funds remitted to the Commonwealth to fees paid was 6.71 to 1. In addition, the office had not worked with the present contractors to develop a schedule for comprehensive mandatory follow-up reviews to ensure that audit issues are promptly and adequately addressed by abandoned-property holders.

- d. Improvements Needed in Fiduciary Controls over Dividends, Stocks, Bonds, and Other Intangible Abandoned Property: The office's fiduciary controls over cash dividends, stocks, bonds, and other intangible property valued in excess of \$136 million received as abandoned property pursuant to Chapter 200A, Section 5, of the General Laws are implemented by a private bank acting as portfolio custodian. Our review of this relationship revealed that the portfolio custodian was not selected by a open competitive procurement process, no written contract existed between the office and the portfolio custodian, the office could not provide an accounting of the amount of fees paid to the custodian, at one point the custodian had not remitted cash dividends totaling in excess of \$3.4 million for up to six years after receipt (the custodian transferred \$4.6 million in cash dividends on June 30, 1998, which indicates that the stock liquidation issue is still ongoing), the office has not liquidated stock in the most timely manner allowed by statute, and the office has allowed the custodian to consolidate reporting years, thereby further confusing and delaying the liquidation process. Had the office liquidated stock received as abandoned property in accordance with the most aggressive schedule allowed by statute, the Commonwealth could have received use of more than \$129 million without incurring the potential of any unfunded liability. Also, the office did not adequately review and reconcile monthly reports issued by the custodian, as evidenced by the provision to us of an internal report that indicated the portfolio balance to be \$77.6 million and a report generated by the custodian for the same period that indicated a portfolio balance of \$43.2 million. The variance between these reports, which

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<p>was not detected by the office, was \$34.4 million. Additionally, the office could neither identify all mutual fund companies serving as custodians of property that has become abandoned or determine the present value of funds held by mutual fund companies.</p> <p>2. <u>Inadequate Cash Management Internal Controls over Treasurer-Controlled Cash Funds:</u> Our review of the cash management controls over various office-controlled check-issuance accounts disclosed that the office lacked an adequate control environment over its various in-house checking account functions. Specifically, control weaknesses within the Unclaimed Check Fund allowed the office, without any verification of document validity, to issue checks from this fund to private heir finders and other private citizens who present an executed power of attorney or declaration of agency status to the office without the office's independent verification that the confirmation of such status was made by a valid and proper party. Also, our review of the control environment over other various in-house checking account functions (Stop and Split Fund, Legislative Per Diem Fund, Replacement Check Fund, Bond Fund, Water Pollution Abatement Trust Fund Administrative Account, Automated Clearing House Check Fund, and Tax Shelter Annuity Check Fund) disclosed a number of internal control weaknesses, such as one person having substantial control over transactions, check stock not adequately safeguarded, access to check machines not limited to authorized individuals, and signature stamps not controlled.</p> <p>3. <u>Improvements Needed in Internal Controls over Cashier Function:</u> During calendar year 1997 the office discontinued its check-cashing teller function, and it no longer maintains any cash at the McCormack Building location or any other location at the present time. However, if the new administration were to reinstate this function, it should be cognizant of weaknesses that existed prior to the office discontinuing this function. Specifically, our review disclosed that an adequate system of internal controls was not in place at the cashier's window to ensure that no excess funds were on hand; proper records were maintained to record daily, weekly, and monthly financial activity; proper checks and balances were in place so that one person would not have control over the activity; and written policies and procedures were in place so that there was compliance with management's directives. Also, during a particular 15-week period the office used funds on hand to cash \$251,673 of presented checks. While Commonwealth funds were expended to cash these checks, the office did not deposit these checks, which resulted in lost income to the Commonwealth. In addition, the office could not provide records to indicate who the payees of these cashed checks were or how long the checks were held.</p> <p>4. <u>Income Lost Due to Delays in Receiving and Investing Commonwealth Revenues:</u> Chapter 30, Section 27, of the General Laws and the Office of the State Comptroller's Internal Control Guide require timely deposits to be made to the State Treasurer or other appropriate depositing accounts. Untimely deposits to the State Treasurer's depository account denies the Commonwealth the use of these funds and results in the loss of investment income to the Commonwealth. During a previously selected test period it was revealed that the office received only \$4.3 million (50%) of a total \$8.6 million in a manner that its receivable</p>	<p>27</p> <p>34</p> <p>37</p>
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system guidelines would classify as timely. Although subsequent limited testing during the transition period showed improvement, the Treasurer should conduct an internal review to ensure that all transfer delay problems have been eliminated. Additionally, our review of this process revealed that, as of January 20, 1999, 79 Commonwealth agencies and departments utilized depositories that report to the Treasurer manually, which results in a receipt delay of one to two days longer in duration than the period necessary for the receipt of revenue in automated accounts.

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|----|--|----|
| 5. | <u>Improvements Needed to Limit and Recover Overpayments to Retirees:</u> The Retirement Board had accumulated accounts receivable in excess of \$900,000 as of January 31, 1999 as a result of ineligible benefit payments being made to retirees subsequent to their death. Our review also disclosed that the board has not interfaced its in-house accounts receivable system with the Commonwealth's Billing and Accounts Receivable Subsystem (BARS) to comply with the Office of the State Comptroller requirements; accounts with significant balances were not forwarded to either a collection agency or the Office of the Attorney General; uncollectible accounts were not written off; and no written policies and procedures existed for directing when accounts should be written off or referred to a collection agency or the Attorney General. In addition, the board had not established procedures with the Commonwealth's Group Insurance Commission for the timely communication of retiree death notification to preclude benefit overpayments. | 39 |
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b. <b><u>Salary Increases June 1998 through January 1999:</u></b> We analyzed the payroll for the period June 1998 through January 1999 and found that there were increases prior to the transition from the old administration to the new administration. Specifically, eight individuals received an increase of \$346 to \$639 per month for a percentage increase of 6% to 17%, respectively.	
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## INTRODUCTION

### Background

The Treasurer and Receiver-General, an elected constitutional officer of the Commonwealth, has direct jurisdiction over the Office of the Treasurer and Receiver-General, the State Board of Retirement, and budgetary control of the Emergency Finance Board. In addition, the Treasurer is the chairman of the State Lottery Commission, and, although not under the Treasurer's purview, the Massachusetts Cultural Council is also budgeted under the Treasurer.

The office is responsible for a variety of financial functions, including receiving and managing all funds paid to the Commonwealth; issuing and managing the Commonwealth's cash flow; paying retirees; administering the pension system for state employees and retirees; and processing and paying the Commonwealth's bills, in concert with the Office of the State Comptroller. The Massachusetts General Laws, Chapters 158 and 200A, also assign to the office the responsibility for receiving, safeguarding, and liquidating property that has been transferred to it from abandoned-property holders.

In addition, the Treasurer is statutorily required to serve on numerous boards and commissions (on several of which the Treasurer ex officio serves as chairman); maintains ex officio appointment power to several Commonwealth boards and commissions; and is statutorily mandated to issue various annual reports regarding state finances to other state officials, including the Commissioner of the Department of Revenue, the General Court, and the Attorney General, and to the municipalities within the Metropolitan Park District.

The specific responsibilities and duties of the Treasurer and the Office of the Treasurer and Receiver-General, as established by Chapter 10, Sections 5 through 61, of the General Laws, are detailed below:

a. Treasurer:

The Treasurer, or his designee, serves as chairman ex officio of the following boards and commissions:

- State Lottery Commission
- Investment Advisory Council
- State Board of Retirement
- Pension Reserve Investment Management Board

- Water Pollution Abatement Board

In addition, the Treasurer, or his designee, serves as an ex officio member of the following boards and commissioners:

- Unemployment Compensation Fund
- Emergency Finance Board
- Board of Bank Incorporation
- Comptroller's Advisory Board
- Emergency Borrowing Board for Cities and Towns
- Emergency Borrowing Board for Counties
- Finance Advisory Board
- Group Insurance Commission Trust Fund
- Commission on Fireman Relief

The Treasurer has the power to appoint (subject to the approval of the Governor or Governor's Council) or approve appointment to the following boards, commissions, and positions:

- Deferred Compensation Commission
- Horse Racing Authority
- Executive Director of the State Lottery
- Retirement Law Commission

The Treasurer is also statutorily responsible for the preparation and submission of the following annual reports:

- Annual Personnel Report to Senate and House Ways and Means Committee (This reporting function is now accomplished through payroll records within the Massachusetts Management Accounting and Reporting System)
- Certification of Deposits in Trust to the Commissioner of the Department of Revenue
- Report on Accounts, Overdue Bank Notes, and Securities to the Attorney General
- Report to General Court on Unpaid Warrants
- Report to General Court on Cash-Flow Projections
- Reports of Statements of Assessments to Towns within the Metropolitan Park District

Additionally, the Treasurer, per statute, receives a quarterly debt statement from all agencies and authorities with the authority to issue bonds (except the Massachusetts Port Authority and the Massachusetts Turnpike Authority). The Treasurer must also receive from the Commissioner of Revenue an annual report stating the value of land owned by the Commonwealth in each city or town within the Commonwealth.

b. Office of the Treasurer and Receiver- General:

Mandated duties and responsibilities of the office include the management and oversight of the:

- Receipt, custody, and disbursement of all funds received and expended by state agencies;
- Sale, recording, and accounting of bonds, notes, and securities;
- Administration of the state employee retirement system;
- Management of the state Abandoned Property Division;
- Administration of the state employee deferred compensation plan;
- Processing of disbursements from the Commonwealth;
- Management of numerous legislatively created trust funds;
- Supervisory management of the State Lottery Commission; and
- Management, in conjunction with the Department of Environmental Management and the Executive Office for Administration and Finance, of the Water Pollution Abatement Trust.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws and in consideration of the recent state election of a new State Treasurer and Receiver-General, we conducted a transition audit of the status of financial activities, accounts, and functions and the related systems and control environment of the Office of the State Treasurer through the date of transition, January 20, 1999. Our audit was conducted in accordance with applicable generally accepted government auditing standards and, accordingly, included such audit procedures and tests as we considered necessary under the circumstances.

The purpose of our review was to inform the new Treasurer and Receiver-General of the status of fiscal and administrative operations as of the date of her assuming office to enhance the transition from the prior administration to the new administration and identify systems and internal accounting and administrative controls needing corrective action and improvement. Our report identifies certain prior administration operations that lacked adequate fiscal and administrative internal controls to ensure that the Office of the State Treasurer and Receiver-General is run in an effective, economical, and efficient manner and in compliance with all applicable laws, rules and regulations. The recommendations in the report are intended to assist the new administration in implementing its internal control structure to ensure that it is adequate to minimize errors, mistakes, losses, shortages, or illegal acts from occurring.

The objectives of our review was to determine:

- (1) The (a) level of actual versus projected spending and revenue, (b) timely recording of revenue and expenses, (c) existence of required inventory controls over property and equipment, and (d) adequacy of internal control structures at the date of transition.
- (2) The office's financial information was presented in accordance with established or stated criteria;
- (3) The office has adhered to specific financial compliance requirements; and
- (4) The office's internal control structure over financial activity and safeguarding of assets was suitably designed and implemented to achieve the control objectives.

Our methodology included reviewing applicable laws, rules, and regulations; interviewing selected office personnel; testing and reviewing accounting records and transactions; and analyzing administrative documents. Our audit methodology also included the following:

Internal Control Structures:

1. Study and evaluation of internal accounting control to assist us in determining the nature, timing, and extent of our audit procedures, as well as to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole. For the purpose of our review, we have classified the significant internal accounting controls in the following categories:

Cash receipts and disbursements  
Payroll  
Accounts receivable  
Purchasing  
Inventory/Property and equipment

2. Review of financial records and transactions to evaluate their completeness, accuracy, and conformance with the Commonwealth's basis of accounting.
3. Other audit procedures, including tests for compliance with applicable laws, rules and regulations that may have a material effect upon the office's financial activities, with specific focus on the activities of the Abandoned Property Division.

Actual Versus Projected Spending: We reviewed budgetary accounts under the jurisdiction of the Treasurer to ascertain the account status and to determine whether the unexpended balances of these accounts were sufficient to meet fiscal year 1999 obligations. This review was conducted with documentation and information (spending plans, budget documents, etc.) provided by the Assistant Treasurer for Administration and Finance. We also conducted limited tests of various expenditures and encumbrances.

Property and Equipment: We reviewed the most up-to-date listing of property and equipment owned by the Treasurer. Our audit procedures included tests performed to determine whether the permanent inventory of property and equipment included newly purchased items and identified individual pieces of property and equipment by serial number, model number, historical cost, purchase date, and accurate physical location. Additionally, we reviewed the listing to determine whether an annual physical inventory was conducted in fiscal year 1998.

Cash Management: We reviewed the internal controls over cash management to determine their adequacy. Our audit procedures included observations of and interviews with staff. Procedures also included a review of controls of signature authority, security over check stock, security over check inscribing machines, cash count of checks on hand, numbering system of checks, and other procedures we deemed necessary.

Abandoned Property: We reviewed the Abandoned Property Division to determine that property in the custody of the Treasury is managed in accordance with all applicable laws, rules, and regulations. Our audit procedures included (1) observation and review of abandoned of property on hand at the Treasury, (2) review of publications of owners of tangible abandoned property, (3) review of the abandoned property audit process used to identify abandoned property not transferred by holders in accordance with the law, (4) review of fiduciary controls, cash dividends, stock, bonds, and other intangible property, and (5) other audit procedures we determined necessary.

We initiated our review prior to the new Treasurer's assuming office. During that time we experienced scope impairments and external interference and constraints. Therefore, our review should not be construed to be an audit within the strict policies and guidelines adhered to by the Office of the State Auditor and promulgated by the Comptroller General of the United States in Government Auditing Standards 1994 Revision, which discusses under the heading "General Standards" certain scope impairments, as follows:

Factors external to the audit organization may restrict the audit or interfere with an auditor's ability to form independent and objective opinions and conclusions. For example, under the following conditions, an audit may be adversely affected and an auditor may not have complete freedom to make an independent and objective judgment:

- a. external interference or influence that improperly or imprudently limits or modifies the scope of an audit;
- b. external interference with the selection of application of audit procedures or in the selection of transactions to be examined;
- c. unreasonable restrictions on the time allowed to complete an audit . . . .
- d. interference external to the audit organization in assignment . . . of audit personnel.

In addition, limiting access to evidence is also a scope limitation and is a reportable condition, which

Government Auditing Standards describes under the heading "Reporting Standards for Performance Audits," as follows:

7.14 In reporting the scope of the audit, auditors should describe the depth and coverage of work conducted to accomplish the audit's objectives. Auditors should, as applicable . . . report the kinds and sources of evidence; and explain any quality or other problems with the evidence. Auditors should also report significant constraints imposed on the audit approach by data limitations or scope impairments . . . .

7.26 Auditors should report all significant instances of noncompliance and all significant instances of abuse that were found during or in connection with the audit. In some circumstances, auditors should report illegal acts directly to parties external to the audited entity.

External interference and constraints imposed upon access to data are specifically identified as scope impairments and are conditions that adversely affect the performance of audits conducted in accordance with generally accepted government auditing standards.

The prior Treasury administration could not or would not provide requested information. Because of this scope limitation, the accuracy of Treasury data could not be independently verified, and the effect of all weaknesses detailed in this report could not be quantified. For example, certain information critical to our audit that was not provided by the prior administration included the following:

- Full disclosure of and unfettered access to all checks, cash, and tangible abandoned property maintained within the office.
- An explanation as to the contractual obligations between the office and its abandoned stock portfolio custodian.
- A detailed summary of mutual fund managers serving as custodians of Massachusetts abandoned property within their funds.
- A detailed trial balance of fund values held by mutual fund managers.
- Fee proposals submitted by private accounting forms for unclaimed property auditing services.

It is possible that access to all records and information needed to conduct a full examination of the Treasury in accordance with generally accepted government auditing standards would have uncovered other areas, and additional dollar effects, of noncompliance that would have been disclosed.

As a result of our transition audit of the status of financial activities, accounts, and functions of the Office of the State Treasurer, we have identified certain prior administration operations that lacked adequate fiscal and administrative internal controls (see Audit Result section of this report) to ensure that the Office of the State Treasurer is run in an effective, economical, and efficient, manner and in compliance with all applicable rules, regulations and laws. The recommendations in the report are intended to assist the new administration in implementing its internal control structure and fiscal and administrative operations to ensure that they are adequate and the office is run in an economical, effective and efficient manner and in compliance with all applicable rules, regulations, and laws.

Subsequent Events: During the course of our audit, certain questionable activities occurred relating to the Unclaimed Check Fund, which has resulted in a criminal investigation by the Attorney General's Office. Accordingly, we are issuing this report on an interim basis in order to assist Treasury management to make timely corrective action. We are, however, continuing our review as required by Chapter 647 of the Acts of 1989 along with the Treasury and the Office of the State Comptroller in order to review the adequacy of the systems that have a material impact on the control environment at the time of transition and that warrant reporting, disclosure, and further corrective action. Any review or disclosure of any matters as they relate to the ongoing criminal investigation is precluded for that reason.



## AUDIT RESULTS

1. Abandoned Property Controlsa. Inadequate Controls over Abandoned Property

Our audit disclosed that the Office of the State Treasurer and Receiver-General lacked an adequate internal control environment in the processes by which it receives, records, inventories, monitors, safeguards, and liquidates property that has been transferred to it from abandoned-property holders. Specifically, the office's Abandoned Property Division did not implement the following basic attributes of an adequate internal control system as required by Chapter 647 of the Acts of 1989:

- The internal control system was not documented to ensure that transactions and events are carried out in accordance with management's directives; administrative policies; accounting policies, procedures, and manuals; and applicable laws, rules, and regulations.
- Procedures were not in place to ensure that all transactions are promptly recorded and clearly documented.
- Procedures were not in place to ensure that access to abandoned property was limited to authorized individuals and that records provided a complete description on all items on hand.
- Supervision was not adequate to ensure the accurate processing of abandoned property receipts.

In addition, we determined that the office did not liquidate physical property in a timely manner consistent with the provisions Chapter 200A, Section 9(b), of the Massachusetts General Laws. Specific deficiencies observed in our review of the Abandoned Property Division's processing of abandoned property follow:

(1) Checks Not Recorded in Abandoned Property Log: Thirty-nine checks totaling \$381,388 from 19 separate holders were deposited into the abandoned property depository account but were not entered in the Abandoned Property Holders Log. The office stated that the overall accuracy of this report is not a departmental goal, since it is used as "a quick reference tool."

(2) Entries Not Recorded Properly: Our review revealed duplicate entries in the Abandoned Property Holders Log, which indicates that it is not verified for accuracy in an adequate, thorough, or timely manner. Specifically, our review disclosed that three entries totaling \$13,654 were entered as being transferred from two separate entities. In each instance, the duplicate entry was an abbreviated

form of the actual transferor's name (for example, the same transfer for \$12,271 was recorded twice, once as a transfer from "Philadelphia Am Ins. Co.", and secondly as a transfer from "Phil. Am. Ins."). These instances of duplicate entries occurred when the individual responsible for reviewing and verifying entries to the holder log errantly deemed that the checks in question were not entered as they had previously been recorded under an abbreviated form of the companies' names.

In addition, the Abandoned Property Holders Log contained five entries that incorrectly recorded the actual dollar amount of deposited receipts. The aggregate amount of the errors was \$46,660, and the net effect during the period was \$35,630. These errors resulted from office staff improperly recording dollar amounts.

(3) Reconciliations Not Routinely Performed: Reconciliations of the Abandoned Property Holders Log to monthly bank deposit records were not performed on a routine basis. Also, reconciliations of daily deposits to monthly bank statements were not performed on a routine basis.

(4) Inventory of Tangible Property Not Taken: The office did not inventory tangible property as required by law. The Massachusetts General Laws, Chapter 200A, Section 7, states, in part:

- (a) Every person holding property declared by this chapter to be presumed abandoned shall report to the treasurer as provided in this section.
- (b) The report shall be on a form prescribed by the treasurer and shall include:
  - (1) Except with respect to traveler's checks, registered checks and money orders, the name, if known, and last known address, if any, of each person appearing from the records of the holder to be the owner of any property of the value of one hundred dollars or more presumed abandoned under this chapter.
  - (2) In the case of presumed abandoned funds of life insurance companies, the full name of the insured or annuitant, and his last known address, according to the records of the life insurance company.
  - (3) The nature and identifying number, if any, or description of any intangible property and the amount appearing from the records to be due, except that items of value under one hundred dollars each shall be recorded in aggregate.
  - (4) Except for any property reported in the aggregate, the date when the property became payable, demandable, or returnable, and the date of the last transaction with the owner with respect to the property.
  - (5) Other information which the treasurer prescribes by rule as necessary for the administration of this section.

- (c) If the holder is a successor to other persons who previously held the property for the owner, or if the holder has changed his name while holding the property, he shall file with his report all prior known names and addresses of each holder of the property.

Sound business practices advocate that, once the information in this format is received, all information should be logged, inventoried, and recorded promptly and accurately to adequately protect the abandoned-property owners' ownership rights. However, our review of the process by which the office receives abandoned tangible property disclosed that it has not performed its custodian responsibilities in a manner that best protects the property from loss or theft. Specifically, our review disclosed:

- There were no records to document and demonstrate that the contents of safe deposit boxes received in sealed bags were verified as to the accuracy of holders' reporting documents.
- Receipts not accompanied by reporting documents were not inventoried for periods of up to three years.

On January 29, 1999, we reviewed and observed the valuable tangible abandoned property stored within a vault at the Office of the State Treasurer at the State House. The vault is only accessible through the office of a Deputy Treasurer, and the Abandoned Property Division Director who is responsible for the abandoned property at the State House could only access the vault when it was not an inconvenience for the Deputy Treasurer. The office of the Division Director responsible for the abandoned property is located at the McCormack Building and not the State House. We were informed by the Director that only two individuals, the Director and a terminated employee, know the combination to the vault. The Director informed us the combination to the vault has not been changed for at least eight years.

Moreover, we found the property to be haphazardly stored in the vault. In order to conduct our review it was necessary to partially unload the vault to gain access to and examine the property. Boxes and bags were strewn about in a completely disorganized manner, as documented by the enclosed photographs (see Exhibit I).

The tangible abandoned property we reviewed consisted of a varied assortment of bags, boxes, envelopes, and miscellaneous items received from banking and financial institutions and hospitals

throughout New England. The Abandoned Property Division had no inventory or receiving reports to account for the property. Also, when the abandoned property is received by the Abandoned Property Division, the listing of items that accompanies the bags, boxes, and envelopes is not compared to the items upon receipt. Not properly documenting, controlling, recording, and accounting for abandoned property upon receipt could contribute to the misuse and theft of the property.

The tangible abandoned property we located in the vault consisted of:

- 82 bank bags
- 65 boxes of assorted sizes
- 15 envelopes of assorted sizes
- 4 United States postal tubs containing an assortment of envelopes and documents
- 2 suitcases
- 4 four drawer file cabinets containing miscellaneous items including jewelry, United States savings bonds, gold Krugerrands, coins, a firearm, and war medals

The bank bags are reportedly sealed and labeled or tagged by the bank. Relative to the 82 bank bags, we noted:

- 10 bags were not sealed with the usual and customary bank seal.
- 7 bags were not labeled or tagged, and 4 of the 7 were not sealed.
- 65 bags had been received since February 1997.
- 17 bags had no tag or label to determine when the office received the bag.
- 9 of the 17 bags were not sealed.

The boxes are reportedly sealed and labeled by the bank or hospital. For the 65 boxes we determined:

- 32 boxes were not sealed and had been opened.
- 2 boxes were not identified and open.
- 44 boxes had been received since October 1997.

We randomly selected two bank bags and one box to determine the contents and found:

- One bag contained (a) a letter of collateral from the bank to the office stating the contents of the bag were items of collateral for a paid up loan, (b) a handwritten unsigned inventory listing, and (c) a briefcase. Inside the briefcase were: one 10-ounce silver bar .999% pure, assorted Hamilton Mint coins, two commemorative coins, commemorative Norman Rockwell coins, 12 sealed envelopes identified to have the following coins: 67 American dimes, seven Canadian quarters, six Canadian dimes, two 1942 Dutch pennies, one 1926 quarter, one 1950 half dollar, five Canadian nickels, 32 American half-dollars, one 1944 GBR penny, one 1880 silver dollar, 33 dimes with emblem wings, 17 American nickels, 33 American quarters, and six pennies.

- The second bag contained the contents of three safe-deposit boxes, which included 1988 Boston Bruins tickets, silver items that appeared to be a sugar and creamer service, and 300 coins wrapped in socks.
- The box contained the contents of five safe deposit boxes, which included personal photographs, Canadian coins, jewelry, birth certificates, and assorted documents.

Of course, there was no way to determine whether the above items represented all of the inventory that should have been found within these containers because, as stated earlier, the office did not reconcile these items upon their receipt.

These conditions were exacerbated by the office's decision to not hold liquidation auctions as often as allowed by the Massachusetts General Laws. Although allowed to have auctions annually, the prior administration conducted only three auctions during the previous eight years. Auctions were held in 1995, 1997, and 1998. No auctions were held in 1991, 1992, 1993, 1994 and 1996. An employee informed us that cash and other items often remained sealed and stored for the interim periods between auctions. Some property may decline in value if not liquidated, whereas other property could increase in value if promptly invested. Chapter 200A, Section 9, of the General Laws sets forth the liquidation of surrendered property as follows:

The treasurer shall proceed with the liquidation of property not earlier than one year after its delivery to him under the provisions of this chapter except that property presumed abandoned pursuant to subsection (b) of section five B [Dividends, etc. of business associations; presumption of abandonment] shall not be liquidated earlier than three years after it was delivered unless the treasurer shall in his opinion find it is in the best interests of the state to do so.

The former Director of the Abandoned Property Division acknowledged that these issues indicate that internal control improvements are necessary, but added that such improvements would be difficult to implement, since the unit endured a 66% staff reduction during the prior administration, with the number of employees assigned to the unit reduced from 45 to 15. Nevertheless, the Abandoned Property Division's operation does not adequately protect the rights of property owners and increase the risk for undetected loss or misappropriation.

Recommendation: The office should develop and implement an internal control environment for the Abandoned Property Division to ensure that property received is properly inventoried, recorded, safeguarded, and, if necessary, liquidated. Specifically, the office should initiate the following corrective

measures to comply with the Commonwealth finance laws, including Chapter 647 of the Acts of 1989 and the State Comptroller's Internal Control Guide:

- Document an internal control system to ensure that transactions and events are carried out in accordance with management directives; administrative policy; accounting policies; procedures; and applicable rules, regulations, and laws.
- Implement a policy by which the Abandoned Property Holder's Log is reconciled with applicable bank records on a timely, fixed, and recurring basis.
- Establish a policy that all entries to the log are uniformly recorded.
- Maintain all inventoried tangible property in a manner that safeguards it against loss or misappropriation by:
  - a. Establishing a system to control and identify property upon receipt. At a minimum, procedures should be developed to document the date of receipt, the contents, the holder of the property, the manner of shipment, and name and last known address of apparent owner.
  - b. Immediately inventorying and assigning approximate values to all abandoned tangible property.
  - c. Implementing a liquidation schedule for annual auction in accordance with the General Laws.
  - d. Maintain all inventoried tangible property in a manner that safeguards against loss or misappropriation.
  - e. Immediately changing and securing the combination to the vault.
  - f. Relocating the storage of tangible property to an area within the McCormack Building, as this is where the Abandoned Property Division personnel are located and property is initially received. The relocation will no longer cause disruptions to the responsibilities and duties of the office of Deputy Treasurer.
  - g. Developing an inventory control system from receipt to disposition to ensure that all property is safeguarded.

Moreover, these activities should be carried out through a witness verification system, and not by lone individuals.

b. Abandoned Property Division Operating Procedures Are Not in Accordance with Certain Provisions of the General Laws

Our review disclosed that the Abandoned Property Division was not complying with certain provisions of the General Laws in its attempt to notify all abandoned-property owners of the existence of abandoned property. Specifically, the division's abandoned property notice did not meet the publication specifications required by Chapter 200A, Section 8, of the General Laws in that it did not include the

names of owners of tangible abandoned property received from banking institutions and hospitals, was not published within the mandated timeframe, was improperly entitled, did not contain the last known addresses of abandoned-property holders, and was not published in all required geographic areas. In addition, our review revealed that the unit had not developed a plan to reach certain potential abandoned-property holders identified in Chapter 200A, Section 1, of the General Laws, such as corporations, partnerships, estates, and trusts.

(1) Publication of Names: We were informed that the office does not publish the names of apparent owners of abandoned tangible property and the payees of state unclaimed checks deemed abandoned property as part of the annual listing of abandoned property and that the names listed on the office's home page on the Internet does not include the apparent owners from either of these categories. When the office did publish the names of abandoned tangible property owners prior to the May 1998 auction, it did so only once in a Saturday edition of the Boston Globe. This publication occurred just one month prior to the liquidation auction. Due to the limited scope of advertising and the limited time between publication of the names of the apparent owners and the date of liquidation of their property, it would have been more prudent to publish these names in a Sunday edition of this newspaper, which has a readership of 2.1 million as opposed to the daily readership of 1.4 million, or 66% of the Sunday readership. (Per Boston Globe web page at [www.boston.com/globe](http://www.boston.com/globe).)

Our review of the tangible abandoned property held in the vault at the State House disclosed at least 82 bank bags, 65 boxes, 15 envelopes, and four United States mail tubs containing uninventoried and unrecorded abandoned property. It is conceivable that thousands of property owners and an unknown value of currency, coins, jewelry, and personal property are unaccounted for because of the grossly inadequate control environment at the State House. Moreover, by not properly publishing the names of owners of abandoned property the office risks unjustly preventing owners or heirs from claiming their personal property and also subjects this valuable property to loss or theft.

(2) Publication Time: The office did not meet the publication time line set forth in Chapter 200A, Section 8(a), of the General Laws, which requires the Treasurer to publish "an unclaimed property list not later than March first or in the case of life insurance companies September first of the same year following the report." The proper application of this statute would require the Treasurer to commence this publication process no later than February 15 and to conclude publication no later than March 1.

However, our review indicated that the list was published during the weeks beginning March 5, March 12, April 2, and April 9, 1995, or from 21 to 50 days later than the statutorily mandated publication timeframe. Also, the unclaimed property list that should have been published no later than March 1, 1998 was not published in the Boston Globe until March 8, 1998 and in newspapers throughout the state until the weeks of March 29, 1998 and April 5, 1998. Late publication minimizes the opportunity for property owners to reacquire their property in the most timely manner and may prevent individuals accustomed to a set publication schedule from seeing the list. Although the office has a home page on the Internet that allows the public access to an unclaimed property list, the most recent listing was as of February 5, 1998.

(3) Improper Title: Our review also revealed that the office did not comply with some of the provisions of Chapter 200A, Section 8(b), of the General Laws, which specifically requires the published abandoned property notice to be entitled "notice of names of persons appearing to be owners of abandoned property." Instead, the office entitled the March 1995 notice "Treasurer Joe Malone's Unclaimed Money List." Moreover, the September 1995 notice of abandoned insurance policy proceeds was improperly entitled "Department of the State Treasurer Unclaimed Property Notice" instead of "notice of names of persons appearing to be owners of abandoned property" as required by statute. As a result, the Treasurer and Receiver-General may have received a questionable advertisement benefit of \$180,000 that was paid for with abandoned property proceeds. Although the March 1998 unclaimed money notice had no title, it had a picture of the former State Treasurer with the quotation: "We're More Efficient Than Ever At The Massachusetts Treasury In Returning Lost Money To Owners. With Your Help, We Can Do Even More" and was signed "Joe Malone, State Treasurer." Entitling the report other than as required and specified by state law is unnecessary, may give citizens the impression that there is more than one abandoned property listing, and publicizes the Treasurer instead of the office.

(4) Addresses Not Included: The office further did not comply with another requirement of Chapter 200A, Section 8(b), of the General Laws, which states, in part:

Each published notice shall . . . contain the names in alphabetical order and last known addresses, if any, of:

- (1) those apparent owners listed in the reports as having a last known address within the county;

- (2) those apparent owners listed as having a last known address outside this commonwealth or as having no last known address in a report filed by a holder with his principal place of business within the county; and
- (3) the insured or annuitant in the case of funds described in section five A if: (i) the report does not list the name of the apparent owners and his last known address; and (ii) the last known address of the insured or annuitant is within the county.

Both published notices reviewed (March and September 1995) provided only the names of the individuals and, contrary to this statute, did not provide their last known addresses. Not listing last known addresses significantly inhibits identification return of property to the rightful owners. Had the office included the required addresses in its abandoned property listing, it would have limited confusion for people having common names and would increase the detection of property owners by people who see the publication and may know someone on the list.

Chapter 204, Section 40, of the Acts of 1996, which was approved on July 30, 1996, deleted the requirement that the last known address also be published along with the individual's name.

(5) Geographical Requirements Not Met: The office also did not comply with the geographical publication requirements of Chapter 200A, Section 8(a), of the General Laws, which requires the notice to "be published . . . at least once a week for two consecutive weeks in a newspaper of general circulation . . . in each county in which an apparent owner last resided." Our review disclosed that the March 1995 list was published for only one week in Berkshire, Franklin, and Hampshire counties. In addition, no notice was published in Dukes or Nantucket counties. By not advertising in each county to the extent required by law, the office did not provide citizens of the Commonwealth living in certain counties with sufficient notice and opportunity to regain their abandoned property.

The prior administration indicated that it believed it was in compliance with the law if the notice was published in the Boston Globe and the Boston Herald, since these newspapers have statewide distribution.

(6) Certain Abandoned Property Holders Not Notified: The office had not developed a plan to reach more potential holders of abandoned property. Chapter 200A, Section 1, of the General Laws defines a person as follows:

"Person" [is defined as] any individual, corporation, joint stock companies, estate, trust, partnership, association, government or political subdivision, public corporation or authority, any bank defined in section one of chapter one hundred and sixty-seven, savings bank,

savings and loan association, co-operative banks, bank holding companies and bank subsidiaries, mutual funds and any issuer of traveler's checks, money orders, outstanding checks and unclaimed wages or similar monetary obligations or commitments, whether organized or operated under state or federal law; utility companies, insurance companies; two or more persons having a joint or common trust or any legal or commercial entity.

Information provided to us by the Office of the State Secretary indicated that there were presently over 154,198 domestic, foreign, and professional corporations presently conducting business in Massachusetts. (Some of these may be defunct but have not been officially dissolved.) Additionally, there is also an undeterminable amount of partnerships, sole proprietorships, and individuals who may also be subject to the abandoned-property holder reporting requirements. However, since only 3,200 abandoned-property holders filed affirmative reports with the office during 1998, there appears to be extremely low compliance with this law by the entities and individuals who are subject to its provisions. By not informing such potential abandoned-property holders of their statutorily mandated responsibilities, the office cannot ensure that as much abandoned property as possible is returned to its rightful owner.

Prior administration officials acknowledged that the operation of the Abandoned Property Division was not in compliance with certain applicable provisions of the General Laws. However, these officials stated that they did not believe that such noncompliance had a material impact on the process by which abandoned property is received by the office or returned to the citizens of the Commonwealth.

Recommendation: The office should revise its Abandoned Property Division's operating practices to ensure compliance with all pertinent statutory provisions. Specifically, the office should ensure that:

- All mandated publications deadlines are adhered to.
- Annual abandoned-property owners lists are properly worded and entitled "Notice of Names of Persons Appearing to Be Owners of Abandoned Property" in compliance with the statute. Also, the office should seek rulings from the Office of Campaign and Political Finance and the State Ethics Commission regarding the propriety of using other descriptive titles and wordings.
- All geographical publication requirements are met.
- The names of tangible abandoned-property owners and payees of state unclaimed checks that have been deemed abandoned are published and listed on the office's Internet web page.

Furthermore, the office should develop and implement a plan to educate all potential holders of abandoned property of their responsibilities imposed by Chapter 200A, Section 7A, of the General Laws

and establish aggressive enforcement controls. Additionally, the Treasurer should determine whether the 1996 legislation sponsored by the former Treasurer that removed the requirements of listing the last known address of apparent owners has adversely affected efforts to locate and return abandoned property to the rightful owners. Finally, the office should consider whether the citizens of the Commonwealth would be better served by providing subsequent-year publications, including last known address, in addition to the current one-year requirement when abandoned property is of significant value. These are minimum requirements, and nothing precludes the Treasurer from taking additional steps that would return more money to the rightful owners, such as publishing the last known addresses along with the names of abandoned-property owners.

c. Improvements Needed in Recovery of Unreported Abandoned Property

Pursuant to Chapter 200A, Section 12(a), of the General Laws, the Treasurer “may at any reasonable time and upon reasonable notice examine the records of any person to determine if said person has complied with the provisions of this chapter.” To carry out this responsibility, the former Treasurer chose to contract with private accounting firms rather than use Treasury staff (as was done in the past) to perform unclaimed property auditing services, conduct compliance reviews, and issue reports on holders or potential holders of unreported abandoned property.

For fiscal years 1993 and 1994, the office contracted with one accounting firm. However, the office decided to expand the number of accounting firms that would be contracted with to conduct required reviews. The office issued a Request for Proposals (RFP) for the purpose of selecting qualified firms for a three-year contract. Our review revealed that Section IV, Scope of Services, of the RFP did not specify the number of reviews required to be conducted annually; include performance criteria outlining specific audit procedures and compliance review requirements; or include a requirement for interim reporting of progress of engagement’s detailing the number of reviews started, status of reviews in progress, and the number of reviews completed. In addition, our review found no requirement for the selected accounting firms to perform follow-up reviews of holders that were found to be in significant noncompliance with the Massachusetts Abandoned Property Law. Finally, the RFP’s scope of service lacked minimum standards for potential candidates’ knowledge of abandoned property law or experience in conducting

abandoned property compliance reviews. Instead, the RFP's minimum criteria for potential firms was as follows:

Any firm submitting a Proposal must meet the following minimum criteria:

1. Evidence compliance with state tax requirements by submitting a certificate of compliance.
2. Be a CPA firm registered to practice in Massachusetts.

Also, our review of the office's selection process disclosed that, although the accounting firm that was selected as the sole provider of abandoned property identification services ranked within the top seven finalists, it was not included in the office's final four selections. The former Director of the Abandoned Property Division stated that, during Phase II of the office's selection process, the prior provider was eliminated because of its fee proposal. However, the prior administration did not provide the fee proposals of the final four firms for our independent review.

Our review of the subsequent Request for Responses (RFR) (Per 801 Code of Massachusetts Regulations, RFPs can be processed utilizing RFRs) in 1997 disclosed the weaknesses continued to exist in the process by which the Abandoned Property Division solicits audit contract service proposals. Specifically, our review indicated that the 1997 RFR did not contain the specific number of reviews required to be conducted annually; the performance criteria outlining specific audit procedures and compliance review requirements; the specific content requirements of monthly interim engagement reports, such as the number of reviews started, the status of reviews in progress, and the number of reviews completed; and the minimum standards for potential firms knowledge of abandoned property laws or experience in conducting abandoned-property compliance reviews as an absolute prerequisite of contract issuance.

Moreover, the prior administration's decision to expand the number of private accounting firms used in the identification of abandoned property not transferred by holders in accordance with the provisions of Chapter 200A of the General Laws has not proven to be a prudent or cost-effective decision. The chart below highlights the decline of unreported abandoned property remitted to the Commonwealth for the period July 1, 1992 through February 2, 1999.

	<u>Combined Totals for Fiscal Years 1993 and 1994</u>	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99 to 2/2/99</u>
Number of Private Accounting Firms	1	4	3	4	5	7
Number of Compliance Reviews Completed	34	6	17	11	22	22
Total Amount of Review Findings	\$23,228,587	\$227,607	\$5,041,467	\$3,337,717	\$4,569,159	\$4,958,944
Total Remitted to Commonwealth	\$17,712,779	\$227,607	\$933,827	\$2,460,384	\$3,122,500	\$3,353,725
Fees Paid to Private Auditing Firms	\$990,000	\$183,019	\$154,698	\$101,248	\$541,455	\$673,563
Ratio of Remittances to Fees Incurred	17.89 to 1	1.24 to 1	6.03 to 1	24.3 to 1	6.77 to 1	4.98 to 1

In the three-and-one-half years since fiscal year 1995, outside audit efforts have improved but the overall ratio of dollars remitted to the Commonwealth to fees paid during this period has significantly declined. The former Director informed us that the use of approved outside audit firms had been expanded in 1997 to eight firms. However, he also indicated that the further expansion did not result in any improvement over the level of abandoned property identified and remitted. Additionally, he indicated that a well-trained force of internal auditors would have been more successful at identifying and compelling remittance of abandoned property funds to the Commonwealth than the present use of outside audit firms. We were also informed that the goal for fiscal year 1999 was to have been 200 audits completed by seven firms. As of February 2, 1999, 22 reports had been issued, of which 16 had no findings; 57 audits were at various stages of completion; and 94 audits had yet to initiate.

Additionally, the former administration had not worked with the private accounting firms to develop a schedule for comprehensive, mandatory, follow-up reviews to ensure that all audit findings are promptly and adequately addressed by abandoned-property holders. Finally, Chapter 200A, Section 12(e), of the General Laws allows the Treasurer to assess interest charges at a rate of 12%, or as adjusted in accordance with Title 26, United States Code 6621, upon individual property holders who do not comply with the reporting provisions of the Massachusetts Abandoned Property Law. However, our

review disclosed no instances in which the office assessed interest charges on noncomplying holders during our review period.

The office provided information that indicated the accounting firm employed for fiscal years 1993 through 1995 had identified more than \$23.4 million of abandoned property held by various entities. However, the former Deputy Treasurer of Abandoned Property and Cash indicated that only \$17.9 million of all property identified had been remitted. He further indicated that the office had the potential, in conjunction with the Massachusetts Department of Revenue and the Office of the State Comptroller, to implement a program to intercept any funds owed by the Commonwealth to the holders who were not in compliance with Chapter 200A of the General Laws. As explained by the former Deputy Treasurer of Cash and Abandoned Property, this program could be a potentially effective vehicle to compel compliance by reticent holders who have been identified by private audits or other means. However, our review revealed that, although the office has identified this opportunity as a potentially effective vehicle to intercept millions of dollars that should be held by the Commonwealth, the office has not taken any steps to implement this plan.

The issues noted in the prior administration's procurement and management of accounting firms used to audit abandoned-property holders resulted in the office's not receiving abandoned-property transfers in excess of several million dollars and in the failure to protect the true owners, heirs, and citizens of the Commonwealth against misappropriation by abandoned-property holders.

Recommendation: The office should review existing procedures and policies to determine what corrective actions should be implemented to ensure that holders of abandoned property promptly comply with Chapter 200A, Sections 7(a) and 12(e), of the General Laws. In conducting its review, the office should:

- Determine the cause for the decline in the ratio of abandoned property remitted to the Commonwealth to fees paid outside audit firms.
- Determine whether to continue the use of outside firms and if so specify in future contracts with accounting firms the number of reviews to be conducted annually and require interim reporting to the office on the progress of the engagement. The contract should also include the performance criteria outlining specific audit procedures and compliance review requirements.
- Require that documented prior experience in conducting abandoned property audits and proven familiarity with abandoned property laws be included as minimum criteria in future Requests for Responses for audit contracts.

- Develop and implement procedures that require accounting firms to conduct prompt subsequent follow-up reviews of all abandoned property holders that prior audits have identified as being significantly in noncompliance with the Massachusetts Abandoned Property Law.
  - Implement procedures that utilize the assessment of interest charges as authorized by Chapter 200A, Section 12(e), of the General Laws.
  - Study and implement, if deemed viable, the fund-intercept program.
- d. Improvements Needed in Fiduciary Controls over Dividends, Stocks, Bonds, and Other Intangible Abandoned Property

The office's fiduciary responsibilities over dividends, stocks, bonds, and other intangible property received as abandoned property pursuant to the Massachusetts General Laws, Chapter 200A, Section 5, are conducted by a private Boston bank serving as portfolio custodian. The portfolio custodian provides safeguarding of transferred abandoned property, monitoring of current market values, collection of dividends and interest distribution, and a monthly accounting to the office of portfolio activity and value. The responsibility of the office to provide proper fiduciary oversight for abandoned property is detailed in Chapter 200A, Sections 9 (Property surrendered to treasurer; liquidation; funds) and 10 (Property surrendered to treasurer; claims; hearings; appeals) of the General Laws. Stocks and bonds held in mutual funds that become abandoned property are not transferred to the custodian bank. The mutual fund manager is designated the custodian on behalf of the Commonwealth for stock ownership rights that become abandoned within their fund. The office can make any request of the individual fund managers as they can make from the custodian bank.

The prior administration's control over abandoned property held by mutual fund companies acting as custodians was so lax that it could not provide any information on the total number of mutual fund companies who presently serve as custodians or the total value of property held by the mutual fund companies. Moreover, at present, the Abandoned Property Division does not perform any internal control procedures that would allow for the detection of the purposeful or accidental misappropriation of Massachusetts abandoned property held by custodians in mutual fund companies.

Our review of the prior administration's process by which the office provides fiduciary oversight for this category of abandoned intangible property disclosed several deficiencies. As discussed below, our

review revealed (1) inadequate controls over contracted services, (2) inadequate monitoring of portfolio custodian activity, and (3) untimely remittance of cash dividends and liquidation of stocks and bonds.

(1) Inadequate Controls over Contracted Services: Prudent business practices advocate that an entity engaged in an agreement by which a second party provides for the day-to-day management of a stock portfolio valued in excess of \$136 million should execute a contract that adequately protects the rights of that entity and includes provisions for:

- Duration of the agreement;
- Statement of responsibilities that must be performed by the custodian of the portfolio;
- Set dates at which distribution earnings must be transferred to the Commonwealth;
- Compensation due the custodian;
- Method of compensation;
- Frequency of payment; and
- Expressed statement of type and information to be maintained on any reports to be generated by the custodian.

In addition, constitutional offices are encouraged, although not required, to comply with 801 Code of Massachusetts Regulations (CMR) 21.00, "Procurement of Commodities or Services," which states:

The purpose of 801 CMR 21.00 is to provide all departments with uniform rules and standards governing the procurement of commodities or services, or both, which shall include, but shall not be limited to acquisitions through an outright purchase, a license, a lease-purchase, a lease, a rental and a fee-for-services. Procurements will be considered in the best interests of, or the best value to a Department and the State when a procurement supports the achievement of required outcomes, generates the best quality economic value, is performed timely, minimizes the burden on administrative resources, expedites simple or routine purchases, allows flexibility in developing alternative procurement and business relationships, encourages competition, encourages the continuing participation of quality vendors and supports State and Department procurement planning and implementation.

Further, various provisions of 801 CMR 21.03 through 21.09 detail the actual procedures to be utilized to ensure a competitive procurement process.

Our review disclosed that the provider of the office's portfolio custodian services was not selected through an open competitive process, no Request for Proposals was made public to ensure the selection of the most qualified candidate at the most cost-effective price, and the office had not executed a written

contract with the provider. Without a written contract, one cannot determine the services to be provided, both parties' responsibilities, the adequacy and quality of services provided, and whether Commonwealth funds were expended for required services provided by a non-public entity.

The former Deputy Treasurer of Cash and Abandoned Property stated that no contract existed between the office and its portfolio custodian. He further stated that this was a continuation of an ongoing relationship. In response to our request for information relative to both the basis for and authorization required to issue payments to the custodian for services provided, the same official stated that the office made no direct payments to the custodian. Furthermore, no information was provided to account for how compensation was paid to the custodian for services provided or the actual dollar amount of these fees.

(2) Inadequate Monitoring of Portfolio Custodian Activity: Sound business practices advocate that, when an entity that receives services is provided a report relative to these services, it is of paramount importance that the entity perform a meaningful and periodic review of the report. Such reviews allow the entity to ascertain needed information and reconcile reports to verify accuracy. However, our review indicated that the office has taken a hands-off approach with regard to the management of stocks and certificates that have been transferred to its possession in accordance with the Commonwealth's Abandoned Property Law once the office transfers these securities to its custodian bank. Specifically, although the portfolio custodian submits monthly reports to the office on the present value of the Abandoned Property Division's stock portfolio, the office had not implemented proper procedures to allow for the monthly reconciliation of its in-house summary stock portfolio report to those submitted by its portfolio custodian.

We were provided with copies of a selected fiscal year beginning and ending internal summary reports produced by the office, which was reported as the reconciling tool used to verify the Abandoned Property Division's stock portfolio balances reported by the custodian. Our examination of these reports disclosed a variance of \$34.4 million. Specifically, the office's internal monthly summary stock portfolio report showed a balance of \$77.6 million, whereas the portfolio custodian's report reflected a balance of \$43.2 million. The office indicated that this discrepancy was due to a formatting error. At the present time these reports are not routinely generated and used for reconciling purposes.

Additionally, the original summary report and the report issued by the portfolio custodian for the corresponding period indicated that no accrued dividends had been received on stocks and certificates transferred as abandoned property in a given two-year period. As a result of our inquiry, the office contacted the custodian, who responded that \$3,000 of accrued dividends earned on stocks during these two years had been erroneously omitted. An amended report was then drafted 10 months subsequent to the issuance of the original document.

(3) Untimely Remittance of Cash Dividends and Liquidation of Stocks and Bonds: Chapter 200A, Section 5, of the General Laws, states:

Subject to the provision of section one A, all intangible personal property not otherwise presumed to have been abandoned under any other section of this chapter, including but not limited to all certificates of ownership, dividends, stocks, bonds, money, drafts and claims for money and credits, including gift certificates and the increments of any of them, except deposits and the increments therein referred to in section three that are held or owing in the commonwealth in the ordinary course of the person's business, including all such property held by any fiduciary, shall be presumed abandoned unless claimed by the beneficiary or person entitled thereto within three years after the date prescribed for payment or delivery. Any dividend, distribution, interest, accrual, or payment on principal declared, set aside, accumulated, provided for or owed with respect to property presumed abandoned under the forgoing provisions of this section shall itself be presumed abandoned.

In addition, Chapter 200A, Section 9(b), of the General Laws states, in part:

The treasurer shall proceed with the liquidation of property not earlier than one year after its delivery to him under the provisions of this chapter except that property presumed abandoned pursuant to subsection (b) of section five B shall not be liquidated earlier than three years after it was delivered unless the treasurer shall in his opinion find it is in the best interests of the state to do so. If the treasurer sells any securities delivered pursuant to section five B before the expiration of the three year period, any person making a claim pursuant to this chapter before the end of three year period is entitled to either the proceeds of the sale of the securities or the market value of the securities at the time the claim is made, whichever amount is greater. A person making a claim under this chapter after the expiration of this period is entitled to receive either the securities delivered to the treasurer by the holder, if they still remain in the hands of the treasurer, or the proceeds received from sale, but no person has any claim under this chapter against the commonwealth, the holder, any transfer agent, registrar, or other person acting for or on behalf of a holder for any appreciation in the value of the property occurring after delivery by the holder to the treasurer.

Chapter 200A, Section 5, of the General Laws defines all intangible personnel property as abandoned three years after the last overt ownership act. However, we were informed that the office's policy is to not liquidate stocks and bonds within the first three years of their receipt to ensure against the potential of an unfunded liability should a successful abandoned-property claim be made under the provisions of

Chapter 200A, Section 9B, of the General Laws. Rather, the office's practice is to require a six-year waiting period after the date prescribed for payment or delivery prior to liquidating abandoned stocks or bonds.

However, our review of the practices of the Abandoned Property Division revealed that the office had not liquidated any stocks or bonds received subsequent to 1987. The office in 1990 last liquidated stock received prior to 1987. On June 14, 1995 \$3.4 million of accrued cash dividends for the period 1988-1994 was remitted to the Commonwealth; however, no stocks or bonds received during the period 1988-1995 had been liquidated. Moreover, the dividend drawdown schedule continues to be processed in a delayed manner, as evidenced by a June 30, 1998 transfer in excess of \$4.6 million from the portfolio custodians. Bulk transfers of such high balances clearly indicate the need for an accelerated schedule of dividend transfers.

During the period of our review, the office had the ability to liquidate securities valued in excess of \$129 million without incurring the assumption of any potential unfunded liability if outstanding shares of this stock increase in value subsequent to liquidation by the Commonwealth. The prior administration's decision to not liquidate these abandoned securities, which had not been subject to an overt ownership act by the presumed owner for a period between six and 14 years, has denied the Commonwealth of more than \$129 million in available funding plus an undetermined amount of lost interest income.

The office's former Director of Financial Operations acknowledged that these securities could be liquidated without any potential loss to the Commonwealth, but stated that this "would be unfair to owners who potentially could envision these securities as their retirement fund."

Recommendation: The office should:

- Commence a competitive procurement of portfolio custodian services utilizing the process outlined in 801 CMR 21.00.
- Enter into a written contract with the successful bidder to document both the office's internal needs and the requirements of the Massachusetts Abandoned Property Law, Chapter 200A, Sections 5 and 9(b), of the General Laws.
- Implement internal control procedures to increase in-house oversight, require monthly review and reconciliation of portfolio balances reported by the custodian, and adequately protect the abandoned-property stock portfolio from purposeful or accidental misappropriation.
- Require the portfolio custodian to provide detailed reports showing the exact date stock was received. Reporting in this nature will allow the office to adopt the most aggressive liquidation process allowed by Massachusetts law.

- Identify all mutual fund companies serving as custodians of Massachusetts property, determine the present value of funds held by these companies, and implement controls requiring periodic tracking of these balances.

Furthermore, if the office does not implement a more aggressive liquidation policy in accordance with the provisions of Chapter 200A, Section 9(b), of the General Laws, the Treasurer should consider filing legislation to amend this statute if it is determined that the protection currently afforded abandoned-property owners is inadequate or unfair.

## 2. Inadequate Cash Management Internal Controls over Treasurer-Controlled Cash Funds

Our review of the cash management controls over various office-controlled check issuance accounts disclosed that the office lacked an adequate control environment over its various in-house checking account functions. Specific control weaknesses within the Unclaimed Check Fund allowed the office, without any verification of document validity, to issue checks from this fund to private heir finders and other private citizens who present an executed power of attorney or declaration of agency status to the office without the office's independent verification that the confirmation of such status was made by a valid and proper party. A proper control environment would require, at a minimum, that the office contact the party who executed the power of attorney or agency declaration to verify that the document presented was not a forged or fraudulent document.

Our observation and review of the control environment over the various in-house checking account functions at the Treasury (the Unclaimed Check Fund, Stop and Split Fund, Legislative Per Diem Fund, Replacement Check Fund, Bond Fund, Water Pollution Abatement Trust Fund Administrative Account, Automated Clearing House Check Fund, and Tax Shelter Annuity Check Fund) disclosed the following weaknesses: (1) no segregation of duties--in all instances one person had all responsibility for various functions of check preparation and issuance without signatory authority, (2) no management level review of activities, (3) unsecured unused check stock, (4) unrestricted access to check preparation hardware and software, (5) uncontrolled signature replication stamps, and (6) responsible parties not being able to provide information as to the reconciliation process for the accounts they administer. These conditions allow for a situation in which an individual with proper access to operational offices could easily acquire

blank check stock (see Exhibit IV), access office check preparation machinery to prepare a check, and complete the fraudulent operation with the affixation of a supervisory employee's signature stamp. (This potential scenario could be perpetrated more easily within the office's Replacement Check Fund, as checks drawn on this fund are entirely handwritten and unused stock is left both in an unlocked desk and on a shelf in an area of the office with open, unfettered access to all employees – within 10 feet of a public water cooler.) A prior audit report indicated that the office did not have adequate controls over checks as follows:

Certain employees of the office have the ability to sign checks without limit and there is a lack of documented evidence that management has reviewed or approved these cash transactions. We recommended that the office reevaluate the individuals who are authorized to sign checks. A dollar limit should be set for each signer and any cash transaction in excess of the authorized amount should require additional authorization and signature. All reviews should be documented.

The Unclaimed Check Fund was created to institute a mechanism by which the office could maintain and issue funds owed by the Commonwealth to entities and individuals in an interim period between when the check is considered an active payable check from one of the Commonwealth's two main check issuance accounts and the time at which checks are moved from the Unclaimed Check Fund to the Abandoned Property Fund.

Checks issued by the Commonwealth should maintain an active status for a period of 12 months from the date of original issuance. At the culmination of 12 months, the office should then transfer funds representing the check total along with payee information to the Unclaimed Check Fund. The transferred funds should remain in the Unclaimed Check Fund from the first day of the 13<sup>th</sup> month subsequent to the issuance date until the first day of the 25<sup>th</sup> month subsequent to the issuance date. It is an office internal policy at this point to classify these funds as abandoned property (this is 12 months in advance of the statutory abandonment period described in the Massachusetts General Laws, Chapter 200A, Sections 1 through 17).

In discussions with an office official we were informed that this clear time line is not strictly adhered to and that the office has endured numerous problems in the matter by which documentation and information supporting balances within the Unclaimed Check Fund is maintained and transferred. Specifically, we were informed that the office made no transfers from the Unclaimed Check Fund to the

Abandoned Property Fund from 1988 to 1995 and from 1995 until June of 1998. The official indicated that the June 1998 transfer was made in a rushed manner for political expedience, as it allowed the prior Treasurer to assert that he had once again increased abandoned-property collections from the previous fiscal year.

The official further stated that the rushed notice of this transfer resulted in the repetition of a condition that had occurred during the 1995 fiscal year transfer and that could have been avoided with the purchase of improved computer software estimated to cost \$6,500. As explained by this official, although the fund transfers in 1995 and 1998 from the Unclaimed Check Fund to the Abandoned Property Fund transpired without any difficulty, information regarding the identity of the rightful payees of the checks was transferred in a truncated and confused manner, and in some cases information was deleted. Specifically, the computer software installed by a Treasury vendor presently does not have adequate data fields with a sufficient level of complexity to identify the rightful owners of the transferred funds. Identification information provided to the Abandoned Property Division identified rightful owners with incorrect last names, last names that were replaced by other payees' first names, and in some instances undecipherable codes. Additionally, in some instances first and last names were deleted. The Abandoned Property Division is therefore unable to ascertain the validity of any claims from the Abandoned Property Fund that originated in the Unclaimed Check Fund.

Additionally, the office has exhibited laxity in the manner by which it has transferred funds into the Unclaimed Check Fund. The same employee who informed us that theoretically some checks could be transferred every day from the Treasury Stop and Split Account into the Unclaimed Check Fund stated that the last actual transfer of payee information supporting previously made cash transfers occurred over two years ago, in January 1997. Unnecessary delays in transfers of funds in and out of the Unclaimed Check Fund and delays in the transfer of supporting information increases the likelihood that intended payees will never receive their rightful payment and that individuals who are not proper payees may wrongfully access these funds.

A review of the underlying MMARS accounting practices relative to the Unclaimed Check Fund performed in conjunction with the Office of the State Comptroller revealed that checks drawn out of the

Unclaimed Check Fund could not be tracked as an identifiable payment voucher within the MMARS system. This occurs because payments out of the Unclaimed Check Fund result in a transfer of funds from the Unclaimed Check Fund to the Suspense Float Fund. Once the funds are transferred, the office issues replacement checks to the companies or individuals claiming ownership. However, the replacement checks are never recorded in MMARS as would a payment to any vendor. Pertinent information that would be recorded on MMARS would be details such as vendor code and other disbursement particulars. Supposedly, the office has this information; however, it should be recorded and reported on MMARS, the official accounting records system of the Commonwealth. (The office maintains a cash suspense fund in MMARS that represents a management tool to identify all amounts for which warrants have been issued but the amounts have not cleared the bank, and amounts in this fund are invested in short-term investments).

Although most items in this Suspense Float fund can be traced to a specific payment voucher (PV) sorted by vendor code in the appropriate MMARS appropriation account, those transferred from the Unclaimed Check Fund are inputted without any identifiable vendor code or payee identification. This condition is exacerbated by the fact that the office cannot provide adequate information to determine the age and validity of activities and accounts that should rightfully transfer to the Abandoned Property Division from the Suspense Float Fund. The office was cited for these deficiencies previously in the Annual Audits of the Commonwealth.

The Comptroller's Internal Control Guide states that the following internal controls are necessary:

Chapter I, Section C2:

Management is responsible for assuring that the entity it manages complies with the laws and regulations applicable to its activities. That responsibility encompasses identifying applicable laws and regulations and establishing internal control structure policies and procedures designed to provide reasonable assurance that the entity complies with those laws and regulations.

A good system of internal controls coordinates a department's policies and procedures to safeguard its assets, checks the accuracy and reliability of its department's accounting data, promotes operational efficiency, and encourages adherence to prescribed managerial policies.

Department managers must develop, implement, monitor and update an effective system of internal controls. The system developed will hinge, in part, on management's estimation and judgment of the benefits and related costs of control procedures.

Chapter III, Section C.4:

- Check Writing Activities
  - The person preparing the checks should not be the person signing the check.
  - The person signing the checks should not be the person reconciling the checking account.

Chapter III, Section F.

Evidence must be maintained to demonstrate that transactions are issued by persons acting within the scope of their authority. Departments should document who has the authority to approve each type of transaction. Adherence to such stipulated authorization should be monitored periodically by the Chief Fiscal Officer to ensure compliance.

Statewide compliance to this principle is, in part, accomplished by the “certification of documentation”. In accordance with Massachusetts General Law Ch. 29, S 20

*“No account or demand requiring the certificate of the Comptroller or warrant of the Governor shall be paid from an appropriation unless it has been authorized and approved by the head of the Department, Office, Commission or Institution for which it was contracted”*

The signature of such authorized personnel must be a matter of record in the Office of the Comptroller, so that when the documents are received they may be certified by comparison with the signature on file.

Chapter IV, Section B:

Restrict access to computer hardware, terminals, remote printers, screens etc. to protect against physical abuse and unauthorized access to MMARS . . . You can restrict access to equipment by maintaining a limited access area (e.g. locked rooms or segregated area) or by using locked covers when hardware is not being used.

Chapter VII, Section B:

Payments to vendors should be made in conformity to the Commonwealth payment policies. Departments should take the initiative to ensure, whenever possible, that these payments occur in a timely manner.

Also, Chapter 647 of the Acts of 1989 sets forth the standards that should be established and incorporated in an internal control structure, as follows:

- a. Internal Control systems are to be clearly documented and readily available for examination. Documentation should appear in management directive, administrative policy and accounting policies and procedures and manuals. Documentation of the department's internal control system should include:
  - Internal Control Procedures
  - Internal Control Accountability Systems

- Identification of all Operating Cycles
- b. All transactions should be (1) promptly recorded, (2) clearly documented and (3) properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event including:
- Initiation or Authorization of the transaction or event
  - All aspects of the transaction while in process
  - Final classification in a summary record
- c. All transactions are to be authorized and executed by persons acting within the scope of their authority. Authorization should be clearly communicated by managers and employees and should include specific conditions and terms under which authorizations are to be made.
- d. Key duties and responsibilities includes assigning tasks to a number of individuals to ensure that effective checks and balances exist and assuring that one person should not have control over a complete operating cycle in the following areas:
- Authorizing, approving and recording transactions
  - Issuing and receiving assets
  - Making payments
  - Reviewing or auditing transactions.
- e. Qualified and continuous supervision should be provided to all staff to ensure that Internal Control Objectives are Achieved. Supervisor responsibility should include:
- Clearly communicating the duties, responsibilities and accountability assigned to each staff member
  - Systematically reviewing each members work to the extent necessary
  - Approving work at critical points to ensure that the work is executed as intended.
- f. Access to and accountability for resources:
- Access to resources and records should be limited to authorized individuals as determined by the department head.
  - The Department head is responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose.
  - Periodic comparison should be made between the resources and the accounting records. This will reduce the risk of unauthorized use or loss of resources and protect against wasteful and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of the comparison.
  - At least annually, or more often as conditions warrant, evaluate the effectiveness of the agencies internal control system and establish and implement changes necessary to ensure the continued integrity of the system.

- The results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management.
- Timely and appropriate corrective actions are effected by the agency management in response to an audit.

The Office of the State Comptroller has been able to determine the aggregate cash flows in and out of the Unclaimed Check Fund, as expressed in the following chart.

#### TRE 0660-0611 UNCLAIMED CHECKS

	<u>1998 Cash Flow</u>		<u>1999 Cash Flow</u>
7/1/97 Balance	\$34,092,157.57	7/1/98 Balance	\$42,322,463.40
Add: Cash Deposits	\$30,265,022.88	Add: Cash Deposits	\$8,192,933.41
Subtract: Cash Deductions	22,034,717.05	Subtract: Cash Deductions	37,282,524.96
Net Cash	<u>8,230,305.83</u>	Net Cash	<u>(29,089,591.55)</u>
Balance as of 6/30/98	<u>\$42,322,463.40</u>	Balance as of 2/22/99	<u>\$13,232,871.85</u>

This information is helpful to understand the level of activity within the fund, but due to office deficiencies in identifying the rightful payee of transfers into the fund and the actual payee for transfers out of the fund, detailed information recording these transactions does not exist.

The Office of the State Auditor, in conjunction with representatives of the State Comptroller and the State Treasurer, continues to work as part of a task force to determine the full extent of cash management control weaknesses or breakdowns within these funds. The goals of the task force are to identify all weaknesses that could lead to error or loss and to create and implement a control environment and business model that provides an adequate level of protection for these funds.

Recommendation: The office should continue its efforts to work toward establishing adequate financial and administrative controls over these checking account functions by continuing to work with the task force to implement the appropriate accounting procedures for reporting, recording, and classifying all events and transactions. This should include at the minimum, the level of detail required for all transactions in MMARS. Also, critical internal control points should be reviewed to ensure that proper checks and balances are in place and to make any necessary corrective actions and adjustments.

The specific critical internal control elements for the Unclaimed Check Fund and other cash funds that should be implemented as required by Chapter 647 of the Acts of 1989 and the Comptroller's Internal Control Guide are as follows:

- Document all internal control systems. Documentation should appear in management directives, administrative policies, and accounting policies, procedures, and manuals. Documentation should include internal control procedures and accountability systems and identification of all operating cycles.
- Ensure that the entire process or life cycle for all cash transactions is promptly recorded, properly authorized, clearly documented, and properly classified.
- Ensure that all transactions are authorized and executed by persons acting within the scope of their authority. Authorization should be clearly communicated by managers and employees, which would include specific conditions and terms under which authorizations are to be made.
- Ensure that there is an adequate segregation of duties and responsibilities to ensure checks and balances. Key duties and responsibilities should be assigned to a number of individuals to prevent one person from having complete control over the operating cycle. (i.e., authorizing, issuing, and receiving assets; making payments; and reviewing or auditing transactions.)
- Ensure that qualified and continuous supervision is provided to all staff. This should include clearly communicating duties, responsibilities and accountability to each staff member; reviewing each staff member's work; and approving work at critical points.
- Ensure access to and accountability for all cash resources. The Deputy Treasurer responsible for maintaining accountability for the custody and use of cash should assign qualified individuals. Also, access to check preparation hardware and software should be restricted, and all unused check stock should be secured.
- Develop monthly reconciliation procedures (or as often as necessary) that would compare bank statement to MMARS and cash records. Any reconciled variances should be reported to management and the Office of the State Auditor, as required by Chapter 647.

### 3. Improvements Needed in Internal Controls over Cashier Function

During calendar year 1997 the office discontinued the maintenance of its check-cashing imprest account. The former Deputy Treasurer of Cash and Abandoned Property indicated that the office does not maintain any cash at the McCormack Building location or any other location at the present time.

The prior administration employed a single teller to maintain a cashier's window during regular business hours at One Ashburton Place, Boston. The cashier's primary function was to cash checks for members of the Legislature, receive deposits from some state agencies that had collected fees, and fines, and cash checks for certain law enforcement agencies that needed cash for "undercover operations." Our review disclosed that an adequate internal controls structure was not in place at the cashier's window to

ensure that there were not excess funds on hand; proper records were maintained to record daily, weekly, and monthly financial activity; proper checks and balances were in place so that one person would not have sole control over the financial activity; and written policies and procedures were in place so that management's directives were adhered to. Also, the fund was not maintained on an imprest fund basis (cash maintained and replenished at a certain level on a routine basis). Our review disclosed the following examples of inadequate internal controls.

- During a 15-week period, the office cashed checks totaling \$251,673 (an average of more than \$16,000 per week). However, because these checks were not deposited in a timely manner, the office did not maximize the interest that could have been earned. The former Deputy Treasurer of Cash and Abandoned Property indicated that most checks are drawn on Commonwealth accounts and therefore would not be revenue but account transfers. He further stated that, in those instances when non-Commonwealth checks are held, they do not have a materially significant impact on the Commonwealth's cash investment position.
- During a three-week period cash balances averaged in excess of \$70,000. However, during that period only \$2,352 was drawn from the cashier's fund. Again, excess funds on hand could have been invested for these three weeks in order to maximize interest earned. An office official indicated that reported balances usually consist more of undeposited checks than cash. However, the two cash counts we conducted on the account's balance disclosed in the first instance the balance of \$71,580 to be composed of cash only, while our second count found \$2,352 in undeposited checks and \$69,228 in cash. In addition, although we were informed that the account is most often utilized by state and local public safety officers needing significant cash to purchase controlled substances, the former Deputy Treasurer of Cash and Abandoned Property could not recall a time when a cash disbursement of greater than \$50,000 was made from this account.
- Ledgers and documents providing an analysis of daily cash activity and balances were not maintained. In addition, there was no individual documentation to support the nature and amount of each payment made from the account. Records should be maintained in order to determine on a daily basis the number and dollar value of checks cashed. Also, a record of the cash daily balances should be maintained in order to forecast how much money is needed on a daily basis so that funds are not idle and are earning interest.
- The teller did not submit a daily report of activities to his supervisor. This should be done on a routine basis so that there are checks and balances over the daily activity (i.e., one person does not have sole control over the daily activity).
- No internal control procedures or control cycles existed. The former Deputy Treasurer of Cash and Abandoned Property acknowledged that the office had not adopted written internal control procedures or control cycles to address the weaknesses highlighted above.

Chapter 647 of the Acts of 1989, "An Act Relative to Improving the Internal Controls within State Departments," has established standards for the recording of transactions and events, including the requirement that all transactions be promptly recorded, clearly documented, and properly classified.

Additionally, documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including:

- Initiation or authorization of the transaction or event
- All aspects of the transaction while in process
- Final classification in a summary record

Chapter 647 of the Acts of 1989 also requires adequate segregation of duties to ensure that effective checks and balances exist and that one person not have control over a complete operating cycle in the following areas:

- Authorizing, approving, and recording transactions
- Issuing and receiving assets
- Making payments
- Receiving or auditing transactions

Further, prudent business practices advocate that when entities utilize a cash-on-hand account, a thorough analysis of maximum account needs should be determined and documented. Once fund maximum and minimum allowable balances are determined, the fund should not fluctuate above or below these set limits. Maintenance of a balance in excess of predetermined needs unnecessarily exposes funds to potential loss, theft, or misuse. Additionally, the practice of holding checks cashed against this account for significant periods of time prior to their being deposited in state revenue accounts may prevent the Commonwealth from maximizing its investment income. Finally, the management of the account was susceptible to utilization for the inappropriate negotiation of checks, drafts, and notes.

Recommendation: If the office were to reinstate a cash teller function, it should develop an adequate system of internal controls to ensure that (1) excessive funds on hand do not result in imprudent investment practices; (2) proper records are maintained to record daily, weekly, and monthly activity; (3) proper checks and balances are in place so that one person is not in sole control over the activity; and (4) written policies and procedures are in place so that management directives are adhered to.

#### 4. Income Lost Due to Delays in Receiving and Investing Commonwealth Revenues

The Massachusetts General Laws, Chapter 30, Section 27, and the Office of the State Comptroller's Internal Control Guide, Section II, require timely deposits to be made to the State Treasurer or other appropriate depositing accounts. Untimely deposits to the State Treasurer's depository account denies the office the use of these funds and results in a loss of investment income to the Commonwealth.

To maximize investment income earned on Commonwealth revenues, the office has implemented procedures that require the use of consolidated receipt accounts within its accounts receivable (AREC) system. The office's policy allows state agencies and departments to select their own local depository bank. Once this selection has been made, the office classifies the bank account within its available eight AREC categories. The primary distinction among these categories is the basis by which the office receives information on the available balance of deposited revenues on hand for individual agencies and departments. The office receives this information by either manual or automated means. There are eight categories by which the Treasurer receives receipt information (three by manual reporting and five by electronic reporting). Revenue deposited in accounts in one of the three manual reporting categories entitled Manual Next Day Credit, BT-II Next Day, and Manual Same Day Credit should be transferred to the office's consolidated receipt account no later than three business days subsequent to deposit by the agency. However, revenue deposited in one of the five automated categories is transferred to the office no later than two business days after being deposited in the agency's local depository bank. The office acknowledges that the five automated categories represent the most timely processes for complying with the intent of the Massachusetts General Laws, Chapter 30, Section 27.

Our review of the office's management of the process by which Commonwealth revenues are received, reported, and transferred to the office's consolidated receipt account, and made available for investing in a timely manner comprised three tests applying the office's AREC guidelines. During a previously selected test period it was revealed that the office received only \$4.3 million (50%) of a total \$8.6 million in deposits tested in a manner that the office's criteria for processing receipts would classify as timely.

- First Test: Various state agencies and departments were randomly selected from the various AREC bank categories, at least one from each monthly bank statement cycle during the audit period. This test, a general test of various account classifications both manual and automated, concentrated on 12 state agencies that during the selected bank cycles had collected \$4.3 million.

Of the \$4.3 million, \$1.8 million, or 42%, was not received by the office within the AREC guidelines, which require the transfer of available deposits within three days.

- **Second Test:** One state agency, which deposited revenue into an account that reported receipt information manually and had significant transfer delays during the month of December, was tested for an expanded period covering eight consecutive monthly bank statement cycles. This agency was classified as a Manual Next Day Credit reporting category, which indicates an action of the office must occur before it receives any money. Subsequent to our detection of this problem, we conducted a test of this agency's revenue transfers for the eight-month period ended February. This test revealed that during this period the agency collected \$1.8 million in revenue, of which \$1.1 million, or 61%, was received by the office between four and 19 days after the time it was deposited by the agency. Treasury officials indicated that accounts within this category should result in revenue being received by the Treasurer on the third day subsequent to deposit by the agency.
- **Third Test:** Various state agencies designated as manual reporters were tested for the same period for which the agency described above had significant transfer delays. Our test focused on eight randomly selected agencies with manually reporting accounts for the same period during which our preliminary audit test work indicated transfer problems had occurred for the agency noted above. This test revealed that the eight agencies collected \$2.5 million in revenue for the test period, of which \$1.4 million, or 56%, was not received by the office within its established timeframe, with excessive delays of up to eight days.

Of the above three tests we performed during our review, the first test, which included automated reporting accounts, revealed the least amount of untimely transfers. Although the office acknowledged that its five automated categories for transferring Commonwealth revenues to the office's consolidated receipt account were the most timely, we found that, as of January 20, 1999, 79 Commonwealth agencies and departments utilized local depositories banks that reported revenues by manual means, thereby delaying the transfer of Commonwealth revenues one to two days longer than those reported by automated categories accounts and denying the Commonwealth the timely use of investment income.

Our review of the 79 manual accounts revealed the following:

- Nine agency manual accounts were at banks that had automated reporting accounts for other state agencies.
- Fifty-eight agencies utilized bank accounts without automated reporting systems although they were conveniently located near banks that provided automated reports to the office.
- Forty-six of the agencies using manual accounts were involved with operations that produce significant daily revenue (e.g., Registry of Motor Vehicles branch offices and the various Courts of the Commonwealth).

Many of the delays incurred in the transferring of revenue receipt information can be related to an office or bank employee's not taking the appropriate or timely action. On one occasion, delay transfers

coincided with an extended absence from work of the individual charged with the responsibility of calling and manually reporting banks on a day-to-day basis to identify existing balances. This situation resulted from the office's noncompliance with the mandated internal control requirements of Chapter 647 of the Acts of 1989. Specifically, one individual with no assigned back-up or supervisory oversight was responsible for the process by which certain manually reporting agencies' revenues are transferred to the consolidated revenue deposit account. Although limited testing during the transition period showed improvement, as long delays between deposits and transfers were not prevalent, the office should conduct an internal review to ensure all transfer delay problems have been eliminated.

The former Deputy Treasurer of Cash and Abandoned Property indicated that the large number of manually reporting banks can be attributed to the office's reluctance to dictate at which bank state agencies must do business, or a reluctance to develop a system that would allow smaller banks to develop automated reporting systems. Nevertheless, the office's inability to implement a system that can ensure all revenue is transferred the day a deposit is made, or at least on the next business day, has resulted in the Commonwealth's inability to timely access funds for investment purposes.

Recommendation: The office should convert all Commonwealth local depositories to one of the following systems:

- A fully automated system that effects transfers of any balance from a local depository to the consolidated revenue account at the close of each business day or
- A system, like the present automated same day credit accounts, that results in daily transfers effected by the Treasurer subsequent to receipt of existing revenue balance information from local depositories.

Also, any system that is implemented should have proper checks and balances that would result in the office's maintaining daily contact with all local depositories to determine the existence of any untransferred balances from the prior day.

##### 5. Improvements Needed to Limit and Recover Overpayments to Retirees

The State Board of Retirement is operated under the direction of the Office of the Treasurer and Receiver-General. Our review disclosed that the board has accumulated accounts receivable in excess of \$900,000 as the result of payments to retirees subsequent to their death. In addition, the board had not interfaced its accounts receivable system with the state's Billing and Accounts Receivable Subsystem

(BARS) to comply with the Office of the State Comptroller's requirements, lacked written guidelines for both referring accounts to a collection agency and writing off accounts deemed uncollectible, and had not established procedures with the Commonwealth's Group Insurance Commission for the timely communication of retiree death notifications to limit benefit overpayments.

Accounts Receivable Summary  
January 31, 1999

<u>Number of Accounts</u>	<u>Group Dollar Range</u>	<u>Total Dollar Amount Due</u>
222	\$1 - \$99	\$ 10,165
271	\$100 - \$999	115,923
106	\$1,000 - \$4,999	224,768
55	\$5,000 to \$24,999	317,485
<u>6</u>	Over \$25,000	<u>242,901</u>
<u>660</u>		<u>\$911,242</u>

Our review also found that the board had no policy that would allow small accounts receivable balances deemed uncollectible to be written off as such. The January 31, 1999 Accounts Receivable Summary included 493 accounts with balances of less than \$1,000. Of the 493, a total of 222 were less than \$100. Although the report format did not provide an aging of these accounts, many accounts would be able to be written off as uncollectible once reasonable collection efforts have been made, as the amounts are less than \$100. In addition, the board's January 31, 1999 Accounts Receivable Report indicated that there were 181 accounts totaling approximately \$8,245 that should be written off. The adoption and implementation of a policy that would allow these accounts to be written off as uncollectible would allow for the board's accounts receivable report to be a more accurate record of the potential collectibility of these accounts. This accounts receivable balance has grown by more than \$400,000 since November 30, 1995. The rapid growth of this outstanding balance is of particular concern, since during this same period the board has reduced collection efforts.

The Office of the State Comptroller has provided all state departments and agencies with BARS, a comprehensive billing system which generates invoices and statements to customers and provides a variety of reports and inquiries to track and account for receivables. Section 1.1 of the Office of the State Comptroller's BARS Procedures Manual outlines a standard six-step revenue cycle that should be utilized by state agencies, as follows:

The standard revenue cycle consists of six steps. The cycle begins when a revenue event occurs and revenue is earned. At this point earned revenue should be recognized, a receivable recorded, and a customer invoice or statement generated. A customer can be billed and rebilled. The rebilling will initiate the collection support. The end result of a delinquent account is a write-off. The revenue cycle can end any time before this point when a payment is remitted by the customer.

Section 1.3, Part 4, of the BARS Procedures Manual details its collection processing as follows:

BARS will initiate a step-by-step collection process. This system will generate a standard series of bills with Dunning messages and Collection letters. Interest charges, and Late charges may be applied to delinquent accounts where appropriate. Other options in the collection process are Intercept for aged receivables greater than 120 days and Payment Plans for accounts that will be settled over a set schedule of payments.

A Master Service Agreement with pre-approved collection agencies has been established by OSC to assist in the collection process. This provides departments with the option of utilizing professional debt collection services without an initial outlay of cash (i.e. for a contingent fee). The collection process is established by the standards on the Debt Collection Policy (MMARS Memo #145).

In addition, the Massachusetts General Laws, Chapter 12, Section 5, states:

All civil actions to recover money for the commonwealth may be brought in the name of the commonwealth by the attorney general or by a district attorney.

This provision does not preclude state departments and agencies from utilizing all other reasonable means for the collection of funds owed that entity. Although the board does not presently utilize the services of a collection agency, it previously contracted with a collection agency for referral of accounts in excess of \$5,000 that it did not successfully collect. However, our review disclosed that the board did not refer accounts with balances less than \$5,000 to either its collection agency or the Office of the Attorney General. Referral to the Attorney General would allow commencement of civil collection procedures pursuant to the Massachusetts General Laws, Chapter 12, Section 5. As a result of these actions, the board has reduced its potential collection of funds due the Commonwealth.

The collection agency agreement in effect during fiscal year 1996 instituted a contingent fee assessment against all successful collections. The fee assessed against collected balances between \$1,000 and \$5,000 was 3% greater for each durational category than corresponding claims greater than \$5,000. The audit liaison for the board stated that account balances between \$1,000 and \$5,000 were not referred to the collection agency due to the prohibitive cost of the collection fee as compared to the account balance. However, this decision did not appear to be sound, as the contingent collection fee was

only 3% greater for the accounts between \$1,000 and \$5,000 than the 27% fee charged for accounts greater than \$5,000. The potential collection of 70% percent of the total owed clearly would have been far better than no collection at all.

Additionally, the board's decision not to provide an aging of its accounts as part of the accounts receivable report or use a collection agency has greatly reduced the board's ultimate collection potential. Finally, many accounts receivable would not be established if a required information-sharing agreement existed between the board and the Commonwealth's Group Insurance Commission (GIC). Such an agreement would greatly reduce the number of accounts receivable, as representatives of deceased retirees are more inclined to contact the GIC subsequent of the retiree's death to access any insurance benefits due the retiree's estate.

Recommendation: The board should:

- Interface its in-house accounts receivable system with BARS.
- Adopt a policy whereby, subsequent to the exhaustion of in-house collection means, all accounts receivable greater than \$1,000 are referred to a collection agent.
- Adopt a policy that all accounts receivable less than \$1,000 be written off as uncollectible subsequent to the exhaustion of all reasonable means of collection.
- Develop formal guidelines establishing a process by which accounts will automatically be referred to a collection agency.
- Maintain an aging of all its accounts receivable balances.
- Formalize an agreement with the GIC that mandates that any information obtained by the GIC regarding the death of a state retiree be provided to the board.
- Study the system utilized by the Social Security Administration to retrieve and prevent overpayments.

#### 6. Internal Control Plan Not Documented

Chapter 647 of the Acts of 1989, an act relative to improving the internal controls within state agencies, established standards for maintaining internal controls over activities to prevent the misuse of Commonwealth funds. Chapter 647 established the minimum level of quality acceptable for internal control systems and specifically outlined the following requirements:

- Internal control systems of the agency are to be clearly documented and readily available for examination, including all operation cycles;

- All transactions and other significant events are to be promptly recorded, clearly documented, and properly classified;
- Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority;
- Key duties and responsibilities are to be assigned in a manner to ensure proper checks and balances;
- Access to resources is to be limited;
- Agencies must appoint an official, equivalent in title or rank to an assistant or deputy, to ensure agency compliance with this act; and
- All unaccounted-for variances, losses, and thefts of funds or property are to be reported immediately to the Office of the State Auditor.

The Act also requires agencies to maintain “written documentation of its internal accounting and administrative control system” and to “annually or more often as conditions warrant, evaluate the effectiveness of the agency’s internal control system and establish and implement changes necessary to ensure the continued integrity of the system.” In addition, the Office of the State Comptroller issued an Internal Control Guide to explain key internal control concepts. This guide provides specific objectives and activities to assist agencies in complying with the requirements of Chapter 647 of the Acts of 1989.

The office was cited in the fiscal years 1994 through 1998 Comprehensive Annual Financial Audits of the Commonwealth for not having a documented plan. The office’s noncompliance with provisions of Chapter 647 has resulted in the existence of a control environment that is inadequate to provide the highest level of security over funds appropriated by the Legislature and Commonwealth revenues received by the office from other state agencies and abandoned property received in accordance with Chapter 200A. Specific control weaknesses included:

- A lack of proper reconciliations, adequate documentation, and safeguards over abandoned property receipts.
- Inadequate internal controls over cash on hand including excessive balances, lack of proper documentation, and limited supervisory oversight.
- The absence of a written contract between the Commonwealth and the private bank serving as portfolio custodian for the stocks, bonds, etc., received as abandoned property and the office’s inadequate review and reconciliation of the monthly reports provided by the custodian.

- Inadequate monitoring, untimely transfers, and delays in the reporting and investing of Commonwealth revenues of manually reporting agencies and departments and inadequate segregation of duties in the process by which certain manually reporting agencies transfer revenue to the office's consolidated revenue deposit account.
- Inadequate internal controls over property and equipment.
- Inadequate cash management internal controls over unclaimed check funds and other controlled cash funds.

Our audit disclosed that on January 16, 1998 the office submitted a draft internal control plan to the Office of the State Comptroller for its review and on September 30, 1998 resubmitted its internal control plan to the State Comptroller for review. However, our review of the internal control plan indicates that the office has not implemented a complete and adequate internal control plan. Certain duties and functions of the office's operations are lacking or need significant improvements. Some of the areas we identified that should be included in the plan or need improvement are the areas of abandoned property, debt management, cash management, cash receipts and revenue management, property and equipment and other areas critical to the operation of the office. The elements of the plan that are lacking in the above areas and are critical elements that should be included in an internal control plan are as follows:

- Identification of all operating cycles which would include an explanation of the cycle and flow of transactions through the critical internal control points. This should include the initiation or authorization of the transactions or event, all aspects of the transaction while in process, and the final classification is summary record.
- The identification of the duties and responsibilities of staff and management positions at key internal control points.
- Identification of management directives, administrative policies, and accounting policies and procedures.
- Specific terms and conditions under which authorization are to be made and identification of individuals who have authorization to review and approve transactions and significant events.
- Identification of key duties and responsibilities where segregation of duties are employed to ensure that effective checks and balances exist. This would include at a minimum, authorizing, approving, and recording transactions.
- A description of the continuous supervision that is provided to ensure that internal control objectives exist. The descriptions at a minimum should include the duties, responsibilities, and accountabilities assigned to each staff member, and the critical points at which work is approved and where the staff members work is reviewed systematically to ensure work flows as intended.

- Identification of individuals who have access to resources and records. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed.

Also lacking in the internal control plan are other key elements of Chapter 647, as follows:

- Identification of an official equivalent in title or rank to an assistant or deputy to the department head whose responsibility is to ensure that the agency has written documentation of its internal accounting and administrative control system on file.
- Indication that annual, or more often as the condition warrants, evaluations of the internal control system are conducted and the necessary changes to the system are made to ensure the integrity of the system.
- Indication that the documentation of the system is readily available for review by the Office of the State Comptroller, the Executive Office for Administration and Finance, and the Office of the State Auditor.
- Indication that all unaccounted-for variances, losses, shortages, or thefts of funds or property shall be immediately reported to the Office of the State Auditor, which shall review the matter to determine the amount involved and report to appropriate management and law enforcement officials.

Recommendation: The office should take immediate steps to comply with Chapter 647 of the Acts of 1989 and implement the guidelines established by the Office of the State Comptroller's Internal Control Guide to create proper accountability and safeguard the Commonwealth's assets. The office should review its plan and document controls for all departments and units within the Treasury. Specifically, the controls within the areas of abandoned property, debt management, cash management, cash receipts and revenue management, property and equipment, and other areas critical to the operation of the office should be addressed. The critical elements that should be included in an internal control plan are as follows:

- Develop policy and procedures for all operating cycles which would include an explanation of the cycle and flow of transactions through the critical internal control points. This should include the initiation or authorization of the transactions or event, all aspects of the transaction while in process, and the final classification is summary record.
- Identify the duties and responsibilities of staff and management positions at key internal control points.
- Identify management directives, administrative policies, and accounting policies and procedures.
- Establish terms and conditions under which authorization are to be made and identify the individuals who have authorization to review and approve transactions and significant events.

- Identify key duties and responsibilities where segregation of duties are employed to ensure that effective checks and balances exist. This would include at a minimum, authorizing, approving, and recording transactions.
- Develop a description of the continuous supervision that is provided to ensure that internal control objectives exist. The descriptions at a minimum should include the duties, responsibilities, and accountabilities assigned to each staff member, and the critical points at which work is approved and where the staff members work is reviewed systematically to ensure work flows as intended.
- Identify individuals who have access to resources and records. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which should be periodically assessed.

Also, other key elements of Chapter 647 should be included in the internal control plan, as follows:

- Identification of an official equivalent in title or rank to an assistant or deputy to the department head whose responsibility is to ensure that the agency has written documentation of its internal accounting and administrative control system on file.
- Indication that annual, or more often as the condition warrants, evaluations of the internal control system are conducted and the necessary changes to the system are made to ensure the integrity of the system.
- Indication that the documentation of the system is readily available for review by the Office of the State Comptroller, the Executive Office for Administration and Finance, and the Office of the State Auditor.
- Indication that all unaccounted-for variances, losses, shortages or thefts of funds or property shall be immediately reported to the Office of the State Auditor, which shall review the matter to determine the amount involved and report to appropriate management and law enforcement officials.

## 7. Improvements Needed in Internal Controls over Property and Equipment Inventory

Our audit revealed that assets entrusted to the office were not adequately safeguarded against loss, theft, or misuse. Specifically, we found that, although the office's practice was to record new purchases on its Permanent Inventory of Property and Equipment, the listing did not identify individual pieces of property and equipment by serial number, model number, historical cost, purchase date, or in some instances accurate current location. The current listing has 3,657 items listed, which includes electronic data processing equipment that is highly susceptible to misappropriation or theft. In addition, our audit revealed no evidence that the office had conducted required annual physical inventories of its property and equipment.

Section C of Chapter VII of the Office of the State Comptroller's Internal Control Guide requires agencies to prepare a complete inventory noting each item's location and to ensure that all equipment has an individual property control identification number, is properly recorded, and is valued at historical cost. Additionally, prudent business practices advocate that any permanent listing of property and equipment must maintain the individuals unit's serial number and model number. This is of the utmost importance to protect that equipment from purposeful misappropriation by replacement with less valuable equipment.

A prior administration official indicated that the existing offices inventory procedures were sufficient. Nevertheless, without an accurate method for verifying the existence of the property and equipment recorded on inventory listing, the Treasurer cannot be assured that assets are adequately safeguarded against possible loss, theft, or misuse.

Recommendation: In order to improve its accounting and management controls and ensure compliance with the Comptroller's policy and prudent business practices, the office should complete a physical inventory that includes the serial number, model number, purchase price, purchase date, and estimated replacement loss for each piece of property and equipment. This inventory should be continually maintained, and a physical inventory should be performed annually.

#### 8. Improvements Needed over the Management of a Perpetual Care Cemetery Trust Fund

The State Treasurer maintains, invests, and disburses funds entrusted to him by trust document for the perpetual care of named cemeteries or any individual cemetery lots. This function is performed by the Treasurer pursuant to the Massachusetts General Laws, Chapter 114, Sections 20 and 21.

Chapter 114, Section 20, states:

Money declared by written instrument to be intended for perpetual care, maintenance, improvement or embellishment of any cemetery, or any lots or plots therein, to an amount not less than two hundred dollars, may be deposited with the state treasurer, who shall receive and receipt for it in the name of the commonwealth. The depositors at the time of making such deposit shall file with him and with the state secretary a copy of such instrument. If the cemetery belongs to a corporation, the deposit shall be accompanied by a written agreement, signed by the president thereof, to the effect that it will accept the income derived from the fund so deposited, and will apply it to the purposes set forth in the instrument. Upon the receipt of a deposit for the perpetual care of individual lots or plots in public burial places or cemeteries, the state treasurer shall so inform the clerk of the city or

town in which they are located, and said clerk shall record the facts relating to said deposit in the margin of his records of said lots or plots.

In addition, Chapter 114, Section 21, states:

The state treasurer shall invest such money in the name of the commonwealth, in bonds or other obligations of the commonwealth or in securities in which he is authorized to invest money in behalf of the commonwealth; and, on the first days of February and August in each year, he shall pay over the accrued interest thereof to the treasurer of any association owning a cemetery for the care, maintenance or improvement of which, or of any lot therein, the money has been deposited with him. If such cemetery is not owned by any association, such interest shall be paid to the town where the cemetery is located. At the time of paying such interest, the state treasurer shall inform the person to whom it is paid of the purpose to which it is to be applied, as stated in the copy of the instrument which is filed with him, and the person to whom it is paid shall apply it to such purpose.

Our review of the prior administration's management of perpetual care cemetery trust funds revealed the existence of one trust fund from which the office has not issued the accrued interest disbursements mandated by the Massachusetts General Laws, Chapter 114, Section 21. The fund, identified as "Perpetual Care Lots Quabbin Park Cemetery, Ware, Mass. Payments," with compounded annual interest earnings posted a balance of \$307,666 as of January 20, 1999. Further examination disclosed burial plots in this cemetery were redistributed by the Commonwealth as part of the creation of the Quabbin Reservoir in the 1930s.

Prior administration officials stated that they were unable to identify the present rightful recipient of these funds, as the named cemetery no longer exists. Unless the proper recipient is identified, the fund's balance will continue to grow with annual interest earnings, and the office will not make interest distributions required by Chapter 114, Section 21, of the General Laws.

Additionally, there are four non-expendable perpetual care cemetery trust funds with no corresponding expendable trusts to expedite the biannual interest payment to the intended cemetery. The Treasury must determine if there is any way to expedite the expenditure of these funds if they determine that the trusts maintain any present value.

Recommendation: The office should work with local officials in Ware to determine whether any fair and equitable manner exists to determine which cemeteries should receive these funds. If this is deemed impossible, the office should determine whether this fund should be declared abandoned property and transferred to the Abandoned Property Fund. Alternately, the office should consult with the Legislature

to develop a legislative solution. Additionally, the office should determine the proper disposition of any remaining balances in the four perpetual care cemetery trusts funds for which no expendable trusts presently exist.

#### 9. Other Areas that Need Improvements and Review by the Present Administration

(a) Annual Audit: The fiscal year 1998 Comprehensive Annual Financial Audit identified certain continuing findings and recommendations on other current or future accounting, administrative, operating and financial reporting deficiencies at the Office of the State Treasurer, as follows:

- (1) Cash Reconciliations: Numerous differences existed in cash balance between office records and the MMARS system maintained by the Office of the Comptroller at June 30, 1998, and they were not reconciled on a timely basis.
- (2) Float Fund: The office maintains a cash suspense fund in MMARS, which represents a management tool to identify all amounts for which warrants have been issued but have not cleared the bank. The amounts in this suspense fund ("float fund") are invested in short-term investments until the amounts clear. This fund has been maintained for years, and current activity going through the fund is identified through the cash reconciliation process. However, there may be activity in the fund that was recorded prior to the improvement in the cash reconciliation process. The office had provided information showing summary of the components in the float fund at June 30, 1998, however, the information was not sufficient to determine the age and validity of the activities and whether certain amounts should be written off and transferred to abandoned property. The total amounts of the float fund as of June 30, 1998 and 1997 were \$342 million and \$296 million, respectively.
- (3) Client Delays – Long-Term Debt: Significant delays were experienced in obtaining the necessary schedules pertaining to long-term debt. Despite repeated requests for information, including a detailed listing of required schedules provided to the office prior to the start of field work, and daily conversations with office personnel, the requested information was not received until after the end of scheduled field work.
- (4) Internal Control Plan To Be Completed: The office had not documented a written internal control plan. (See Audit Result No. 6.)

These issues have been reported repeatedly over the last several years.

Recommendation: The office should (1) perform cash reconciliations between its records and MMARS on a monthly basis and investigate and document any reconciling items, (2) perform a detailed analysis of the float fund to substantiate the balance and identify any old transactions that have not been presented for payment, and (3) prioritize the preparation for the audit and prepare a work plan in order to complete the required information on a timely basis.

(b) Salary Increases June 1998 through January 1999: We analyzed the payroll for the period June 1998 through January 1999 to determine whether there were any increases prior to the transition from the

prior administration to the present administration. Our analysis revealed that nine individuals received increases ranging from \$346 to \$639 per month and percentage increases ranging from 6% to 17%, as follows:

Payroll Period June 1998 through November 1998

<u>Employee</u>	<u>June 1998</u>	<u>November 1998</u>	<u>Monthly Increase</u>	<u>Percentage Increase</u>
A	\$5,769	\$6,153	\$384	6%
B	\$4,615	\$5,231	\$616	12%
C	\$2,377	\$2,769	\$392	14%
D	\$3,130	\$3,769	\$639	17%
E	\$1,962	\$2,308	\$346	15%
F	\$2,769	\$3,231	\$462	14%
G	\$2,852	\$3,308	\$456	14%

Payroll Period November 1998 through January 1999

<u>Employee</u>	<u>November 1998</u>	<u>January 1999</u>	<u>Monthly Increase</u>	<u>Percentage Increase</u>
H	\$3,462	\$3,846	\$384	10%

We also determined that two employees transferred to the Massachusetts State Lottery Commission and received salary increases as follows:

<u>Employee</u>	<u>Treasury Salary</u>	<u>Lottery Salary</u>	<u>Increase</u>	<u>Percentage Increase</u>
J	\$65,000.00	\$73,358.52	\$8,358.52	13%
K	\$55,619.72	\$56,644.08	\$1,024.36	2%

#### 10. Status of Accounts

We reviewed certain budgetary accounts under the jurisdiction of the Treasurer (see Exhibit III) to ascertain the present account status and to determine whether the unexpended balances of these accounts are sufficient to meet outstanding fiscal year 1999 obligations. This review was conducted with documentation (e.g., spending plans, budget information) and information provided by the Assistant Treasurer for Administration and Finance. The Assistant Treasurer provided the following information with regard to the sufficiency of the unexpended balance or to the office's ability to adequately monitor these specific accounts.

- [1] Appropriation Number 0610-0000 (General Administrative Account) – This account is for the operation and maintenance of the Treasurers Office. The Assistant Treasurer stated he envisioned the need for a supplemental appropriation of \$200,000 to \$250,000 for this account. This estimation was based, in part, on the calculation of costs associated with the termination of senior level management employees of the prior administration. The Assistant Treasurer calculated these costs to be approximately \$100,000. The balance of the supplemental appropriation estimate was based on potential office renovation costs, purchase of updated office supplies, potential expansion of the workforce and the possibility that certain employees of the prior administration would be retained as employees during an extended transition period.
- [2] Appropriation Number 0610-0100 (Bank Fees) – This account is for the payment of bank fees associated with the administration of the local revenue depository network and the reconciliation activities associated with the Commonwealth' banking activities. The Assistant Treasurer stated the remaining balance in this account could be insufficient if changes were made in the office's banking structure that resulted in the implementation of additional bank fees. It appears that bank fees were greatly reduced in the prior administration, however, the fees were not actually reduced but were offset by the imposition of a compensating balances which allow the custody banks to receive and hold Commonwealth funds in lieu of the imposition of fees. If no changes were made with regard to banking relations during the present fiscal year the balance of this account would be sufficient to pay all bank fees.
- [3] Appropriation Number 0612-1010 (Commonwealth's Pension Liability Fund) – This fund is in its second year of payment on a 20 year level funding schedule to make the retirement system self sufficient and eliminate the unfunded pension liability. The Assistant Treasurer stated the balance in this account is sufficient as any deficiency in the appropriated amount is absorbed by transfers from the Pension Reserve Investment Trust Fund (PRIT) Account. (Transfers from PRIT are funded by excess earnings on state employee retirement investment accounts). The Assistant Treasurer further stated that in the future this could change if operations costs increased to a level which resulted in an adverse impact to the amount of excess earnings available to offset the unfunded pension liability within the PRIT fund.
- [4] Appropriation Number 0612-2000 (Non-Contributory Retirement Fund) – This account is for the retirement benefits for certain non-contributory retirees. The Assistant Treasurer stated that although the present fiscal year appropriation in this account is sufficient, this appropriation may need to be increased in ensuing fiscal years if retirement systems absorbed by the Massachusetts Retirement Board due to the dismantling of county government results in a dramatic increase in the number of non-contributory retirees.
- [5] Appropriation Number 0620-0000 (Financial Assessment to Injured Firefighters) – This account provides \$1.00 per day to injured firefighters for each day they are disabled and \$2.00 per day to volunteer firefighters for each day they are disabled from a firefighting related injury and are unable to work at their regular job. The account also allows for a \$2,500 death benefit for firefighters killed in the line of duty. The program is administered by a local firefighter and his assistant who receive an annual stipend of \$500 and \$200 respectively. A statutory cap on administrative expenses is presently exceeded by \$200. The oversight board for this appropriation, for which a Deputy Treasurer represents the Treasurer, does not meet and does not oversee the activities of this program.
- [6] Appropriation Number 0612-1506 (Unfunded Liability of the 13 Non-State, Non-Teacher Retirement Systems within the PRIT Fund) - Massachusetts General Laws, Chapter 32, Section 22B, requires that "the governor shall recommend to the general court an appropriation to be set aside . . . which shall be equal or greater than one point three percent of the total amount appropriated for the salaries of permanent and temporary state employees." This is listed as a deficiency in the office's spending plan, as the statutorily mandated calculation from which this

appropriation should be derived exceeds the actual fiscal year 1999 appropriation by \$1,922,975.

- [7] Appropriation Number 0699-0015 (Payment of Interest, Discount, and Principal on Certain Bonded Debt and the Sale of Debt in the Commonwealth) – This account is for the payment of interest, discount, and principal or certain bonded debt and the sale of debt in the Commonwealth. The Assistant Treasurer stated that, although this account appears to be overexpended for this point in the fiscal year, it is not. He stated that accelerated expenditure timetable is due to the timing of expenditures from this account. The Assistant Treasurer explained that the Commonwealth issues bonds approximately four to five times per year. Interest payments commence six months subsequent to issuance and principal payments commence one year subsequent to issuance. This repayment schedule can result in a preponderance of expenditure activity in the first six months of any given fiscal year, as the repayment schedule for debt issued in the prior fiscal year commences in the ensuing fiscal year.

Recommendation: The office should:

- Continually monitor all budgetary accounts to ensure that sufficient funds are available during the fiscal year to meet obligations and file for supplementary appropriations where needed.
- For Account 0620-0000 (Financial Assessment to Injured Firefighters) review this program to determine if the original legislative intent is being served.
- For Account 0610-0100 (Bank Fees) determine the most prudent manner to pay bank fees and this could result in the need for an increase in this appropriation in this fiscal year and ensuing fiscal years but result in long-term savings.



## EXHIBIT I

The attached 10 photographs were taken by members of the Office of the State Auditor during their transition audit of the State Treasurer's Office on January 29, 1999, between 9:00 a.m. and noon. The photographs are of abandoned property strewn about in a haphazard and disorganized manner within a vault at the Treasurer's Office at the State House.





EXHIBIT I (Continued)

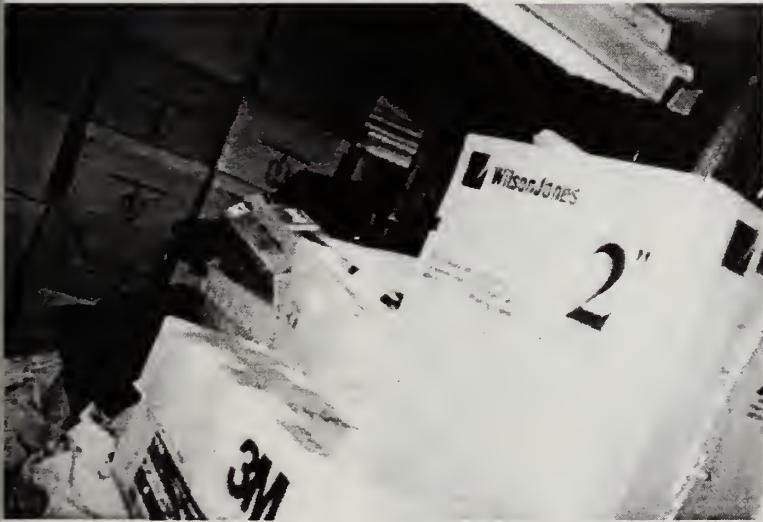




EXHIBIT I (Continued)





## EXHIBIT II

Custodial Accounts  
As of January 20, 1999

	<u>Balance</u>
1. Insurance Deposits	\$1,865,602,000
2. Self Insurers	31,330,000
3. Inheritance Tax	10,500
4. Excise Tax	-
5. Cigarette Tax	565,000
6. Foreign Bankers	3,323,101
7. Checks or Money Orders	1,021,000
8. Motor Vehicles	721,328
9. Collateral Banks	210,000
10. Motor Bus	-
11. Alcohol Wholesaler/Manufacturer	77,000
Total	<u>\$1,902,859,929</u>

These accounts may include various forms of securities or certifications of deposits pledged by business entities or individuals in accordance with state statutes for the protection of citizens doing business with these individuals or entities, or to protect the Commonwealth against nonpayment of certain taxes due the Commonwealth. The actual securities are held by two local banking institutions.

Descriptions of the accounts follow:

1. Insurance Deposits: Domestic, foreign, and all workers' compensation insurance companies conducting business within the Commonwealth of Massachusetts must post bond or other security with the Treasurer. The Commissioner of the Division of Insurance determines the requisite level of security, and the Treasurer serves as the custodian of the funds (Per Massachusetts General Laws, Chapter 152, Section 61; Chapter 175, Section 15; and Chapter 175, Section 185).
2. Self Insurers: Entities that provide self-insurance in accordance with the requirements of the Department of Industrial Accidents (DIA) are required to post bond or security at a level determined by the DIA with the Treasurer (Per Massachusetts General Laws, Chapter 152, Section 125A).

## EXHIBIT II (Continued)

3. Inheritance Tax: Executors who file for an extension of the due date for inheritance tax with the Department of Revenue (DOR) are required to post a bond deemed sufficient by DOR with the Treasurer (Per Massachusetts General Laws, Chapter 65C, Section 10).
4. Excise Tax: Entities that conduct businesses that collect tax revenue on behalf of the Commonwealth must post bond or securities as required by the Department of Revenue with the State Treasurer. The Excise Tax Category consists mostly of companies involved in the sale of oil and gas (Per Massachusetts General Laws Chapter 62C, Section 66.)
5. Cigarette Tax: Massachusetts General Laws, Chapter 62C, Section 66, as it is applied to cigarette wholesale companies.
6. Foreign Bankers: The Division of Banks (DOB) requires foreign banks operating in Massachusetts and which are involved in the transmittal of funds internationally to post bond or other securities with the Treasurer (Per Massachusetts General Law chapter 169, Sections 2-3).
7. Checks or Money Orders: The Division of Banks requires certain entities involved with the issuance of checks and money orders to post sufficient bond or other securities with the Treasurer (Per Massachusetts General Laws, Chapter 167F, Section 4).
8. Motor Vehicles: Individuals or fleet operators who wish to post bond or security to provide self-insurance of their motor vehicle(s) must transfer to the Treasurer bonds or securities as prescribed by statute (Per Massachusetts General Laws, Chapter 90, Sections 34D and 34F; and Chapter 159A, Section 6).
9. Collateral Banks: The Office of the State Treasurer could not provide a statutory reference with regard to securities held within this category. The former Deputy Treasurer for Cash Management stated he believed these assets were pledged to protect customers of certain "start up" financial institutions and health care providers against unsecured losses. Presently the Treasurer is holding securities valued at \$200,000.00 on behalf of the Boston Bank of Commerce and \$10,000.00 on behalf of the Capital Area Community Health Plan.
10. Motor Bus: The Treasurer currently holds no securities on behalf of self-insured motor bus carriers.
11. Alcohol Wholesaler/Manufacturer: Massachusetts General Laws, Chapter 62C, Section 66, as it is applied to alcohol wholesalers and manufacturers.

EXHIBIT III

Commonwealth of Massachusetts  
Massachusetts Management Accounting and  
Reporting System (MMARS) Obligation Control Report (RTP 239C)  
Treasurer and Receiver-General as of  
January 20, 1999

## EXHIBIT III (Continued)

Definitions and Description of Commonwealth of  
Massachusetts Management Accounting and Reporting System (MMARS)  
Obligation Control Report (RPT 239C)  
Treasurer and Receiver-General as of  
January 20, 1999

The following computer report identified in MMARS as RPT 239C is one version of a set of reports in the RPT 239 series that is relied upon for management, accounting, and reporting purposes.

The column "Total Available" includes amounts appropriated in the initial and any supplemental appropriation, amounts authorized to be carried forward from the prior fiscal year, actual retained revenues collected to date, and amounts transferred between accounts or allocations between a parent appropriation account and its subordinate allocation accounts.

The Budget Bureau has strict controls to assure that amounts posted to MMARS appropriations field and balance forward match the legally adopted budget. Appropriations are net of any vetoes and match line items in the budget. Balance forward from the prior fiscal year, often called prior appropriations continued, is not allowed in any account unless specified for a line item in the budget. All revenues are deposited to the General Fund and may only be retained for expenditure when specified, again by line item in the budget. No amount may be transferred or allocated among other accounts unless the transfer is specifically authorized in the budget or other statutory authority.

"Planned Savings" is the portion of the total available withheld by the Governor under the authority of the Massachusetts General Laws Chapter 29, Sections 9B and Section 9C.

"Obligation Ceiling" is the mathematical balance of total available less any planned savings. This balance is the amount against which encumbrances and expenditures are controlled. The MMARS applies a computerized edit to all encumbrance and expenditure transactions, and will reject transactions that would accumulate to more than the obligation ceiling. This is typically called the funds availability check. In some cases the Comptroller is authorized by state finance law to allow an override for encumbrances to exceed the obligation ceiling. For example, encumbrances may be approved in retained

## EXHIBIT III (Continued)

revenue accounts on the basis of estimated revenues to be collected and retained later in that fiscal year. This temporary override subsequently becomes unnecessary as revenues become collected and the total available amount is updated.

The “Pre-Encumbered and Encumbered” column represents the portion of the obligation ceiling reserved for service contracts, leases, and purchase orders. Pursuant to state finance law, the Comptroller’s Office requires that legally binding commitments of the Commonwealth be confirmed to funds available in the account prior to approval. There are different types of encumbrances customized to the various contracting and procurement activities of the Commonwealth. Many encumbrances also require approvals in addition to the funds available check; for example, transactions for consultant contracts also require the itemized approval of the Executive Office for Administration and Finance. The pre-encumbrance is used for multi-step procurements so that the funds availability check is applied early in the process. For example, requisitions to procure specialized equipment to the Operational Service Division (OSD) are first pre-encumbered, and upon completion of the bid process and award to a vendor, the transaction is changed to an encumbrance.

The column “Expended” represents amounts paid to another party. Payments may take the form of payrolls for state employees, distributions to cities and towns, payments to beneficiaries such as welfare or pensions, or payment vouchers to vendors. When a payment references an encumbrance, the amount encumbered is decreased as the amount expended is increased. Payments are approved and certified by the Comptroller, approved by the Governor’s Council, and subsequently disbursed by the State Treasurer. State finance law directs certain payments, most notably debt service, be directly disbursed by the Treasurer and not subject to prior certification of funds available in the account by the Comptroller and approval by the Governor’s Council. Such items are accounted for as expended in MMARS.

## EXHIBIT III (Continued)

The "Uncommitted Balance" column represents the mathematical balance of current obligation ceiling less amounts encumbered and expended--This represents the balance of the account available for payrolls encumbrances, advances, and other expenditures to occur later in the fiscal year.

The "% Expended of Oblgn Ceiling" column represents the percentage of the expended column total divided by the obligation ceiling column total. This calculation is done against the obligation ceiling, not the total available, since the obligation ceiling is the portion of the account with which departments can work.

The subsidiary code expenditure classifications which are as follows:

- AA. REGULAR EMPLOYEE COMPENSATION
- BB. REGULAR EMPLOYEE RELATED EXPENSES
- CC. SPECIAL EMPLOYEE/CONTRACTED SERVICES
- DD. PENSION AND INSURANCE RELATED EXPENDIURES
- EE. ADMINISTRATIVE EXPENSES
- FF. FACILITY OPERATIONAL SUPPLIES AND RELATED EXPENSES
- GG. ENERGY COSTS AND SPACE RENTAL EXPENSES
- HH. CONSULTANT SERVICES CONTRACTS
- JJ. OPERATIONAL SERVICES
- KK. EQUIPMENT PURCHASE
- LL. EQUIPMENT, TELEPHONE LEASE-PURCHASE, LEASE AND RENTAL, MAINTENANCE AND REPAIR
- MM. PURCHASED CLIENT HUMAN AND SOCIAL SERVICES AND NON-HUMAN SERVICES PROGRAMS
- NN. CONSTRUCTION AND IMPROVEMENTS OF BUILDINGS AND MAINTENANCE OF INFRASTRUCTURE AND LAND ACQUISITION
- PP. GRANTS AND SUBSIDIES
- RR. ENTITLEMENT PROGRAMS

EXHIBIT III (Continued)

SS. DEBT PAYMENT

TT. LOAN AND SPECIAL PAYMENTS

00. ALL OBJECT CODES



RUN DATE: 01/21/99  
RUN TIME: 00:43  
CTRRTPS

COMMONWEALTH OF MASSACHUSETTS  
MMARS - MASSACHUSETTS MANAGEMENT ACCOUNTING AND REPORTING SYSTEM

99-0085-2

OBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT., APPROV AND SUB TOTALS  
BFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

SECRETARIAT: 06  
SECRETARIAT NAME: TREASURER & RECEIVER GENERAL

DPT	APPROV	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLIGN CEILING
TRE	06100000	AA	TREASURER ADMIN	4,468,862	0	4,468,862	0	2,330,022	2,138,839	52.139
TRE	06100000	BB	TREASURER ADMIN	16,440	0	16,440	1,982	6,582	7,875	40.041
TRE	06100000	CC	TREASURER ADMIN	50,000	0	50,000	9,055	20,944	20,000	41.889
TRE	06100000	DD	TREASURER ADMIN	82,052	0	82,052	69,879	12,109	62	14.758
TRE	06100000	EE	TREASURER ADMIN	479,399	0	479,399	99,600	212,581	167,216	44.343
TRE	06100000	FF	TREASURER ADMIN	0	0	0	0	0	0	0.000
TRE	06100000	GG	TREASURER ADMIN	155,813	0	155,813	64,921	90,890	0	58.333
TRE	06100000	HH	TREASURER ADMIN	31,000	0	31,000	13,488	14,021	3,490	45.232
TRE	06100000	JJ	TREASURER ADMIN	3,000	0	3,000	1,000	0	2,000	0.000
TRE	06100000	KK	TREASURER ADMIN	10,000	0	10,000	0	0	10,000	0.000
TRE	06100000	LL	TREASURER ADMIN	515,288	0	515,288	316,002	179,588	19,697	34.852
SUBTOTAL FOR APPROP: 06100000				5,811,854	0	5,811,854	575,930	2,866,741	2,369,181	49.326
TRE	06100024	00	RMV-CREDIT CARD	300,000	0	300,000	190,272	109,727	0	36.576
SUBTOTAL FOR APPROP: 06100024				300,000	0	300,000	190,272	109,727	0	36.576
TRE	06100025	00	DOR/CSE CREDIT	4,735	0	4,735	3,355	757	622	15.987
SUBTOTAL FOR APPROP: 06100025				4,735	0	4,735	3,355	757	622	15.987
TRE	06100026	00	MDC CREDIT CARD	5,290	0	5,290	1,425	1,574	2,290	29.756
SUBTOTAL FOR APPROP: 06100026				5,290	0	5,290	1,425	1,574	2,290	29.756
TRE	06100027	EE	TAX ADMIN/CREDI	12,500	0	12,500	0	0	12,500	0.000
TRE	06100027	00	TAX ADMIN/CREDI	37,500	0	37,500	15,885	2,114	19,500	5.637
SUBTOTAL FOR APPROP: 06100027				50,000	0	50,000	15,885	2,114	32,000	4.228
TRE	06100028	00	CREDIT CARD TEA	32,000	0	32,000	22,468	9,531	0	29.785
SUBTOTAL FOR APPROP: 06100028				32,000	0	32,000	22,468	9,531	0	29.785
TRE	06100029	00	HRD - CREDIT CA	2,500	0	2,500	2,409	90	0	3.621
SUBTOTAL FOR APPROP: 06100029				2,500	0	2,500	2,409	90	0	3.621
TRE	06100030	00	OSD - CREDIT CA	2,500	0	2,500	1,844	655	0	26.229
SUBTOTAL FOR APPROP: 06100030				2,500	0	2,500	1,844	655	0	26.229

RUN DATE: 01/21/99  
RUN TIME: 00:43  
CTR RPTS

COMMONWEALTH OF MASSACHUSETTS  
MMARS - MASSACHUSETTS MANAGEMENT ACCOUNTING AND REPORTING SYSTEM

REPORT PAGE: 54  
REPORT ID: RPT239C  
BUDGET FY 1999  
OBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT, APPROV AND SUB TOTALS  
BFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

SECRETARIAT: 06  
SECRETARIAT NAME: TREASURER & RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLGN CEILING
TRE	06100031	00	CREDIT CARD SER	2,740	0	2,740	0	0	0	2,740
			SUBTOTAL FOR APPROP:	06100031	2,740	0	2,740	0	0	2,740
TRE	06100093	00	HERO'S WELCOME	398,724	0	398,724	0	0	0	398,724
			SUBTOTAL FOR APPROP:	06100093	398,724	0	398,724	0	0	398,724
TRE	06100100	00	EE BANK FEES	900,000	0	900,000	604,951	295,048	0	32,783
			SUBTOTAL FOR APPROP:	06100100	900,000	0	900,000	604,951	295,048	0
TRE	06100300	00	UNCLAIMED DEPOS	137,013	0	137,013	0	0	0	137,013
			SUBTOTAL FOR APPROP:	06100300	137,013	0	137,013	0	0	137,013
TRE	06100600	00	UNCLAIMED WAGE	48,406	0	48,406	0	0	0	48,406
			SUBTOTAL FOR APPROP:	06100600	48,406	0	48,406	0	0	48,406
TRE	06100601	00	UNPAID CHECK FU	151	0	151	0	0	0	151
			SUBTOTAL FOR APPROP:	06100601	151	0	151	0	0	151
TRE	06100603	00	EMINENT DOMAIN	34,095,557	0	34,095,557	6,819,104	11,542,593	15,733,859	33.854
			SUBTOTAL FOR APPROP:	06100603	34,095,557	0	34,095,557	6,819,104	11,542,593	15,733,859
TRE	06100604	00	CONVENTION AUTH	26	0	26	0	0	0	26
			SUBTOTAL FOR APPROP:	06100604	26	0	26	0	0	26
TRE	06100622	00	COURT UNCLAIMED	1,390,857	0	1,390,857	0	0	0	1,390,857
			SUBTOTAL FOR APPROP:	06100622	1,390,857	0	1,390,857	0	0	1,390,857
TRE	06104261	00	GANS TRE REV	308,872,888	0	308,872,888	0	157,217,194	151,655,693	50.900
			SUBTOTAL FOR APPROP:	06104261	308,872,888	0	308,872,888	0	157,217,194	151,655,693
TRE	06104262	00	GANS TRE PROJ	613,153,480	0	613,153,480	0	135,526,196	477,627,284	22.103
			SUBTOTAL FOR APPROP:	06104262	613,153,480	0	613,153,480	0	135,526,196	477,627,284

COMMONWEALTH OF MASSACHUSETTS  
MMARS - MASSACHUSETTS MANAGEMENT ACCOUNTING AND REPORTING SYSTEMOBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT, APPROV AND SUB TOTALS

BYFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

SECRETARIAT: 06 SECRETARIAT NAME: TREASURER &amp; RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLGN CELLING	
TRE	06104401	EE EBT SYSTEM		962,763	0	962,763		6,727	956,036	0	99.301
SUBTOTAL FOR APPROP:	06104401			962,763	0	962,763		6,727	956,036	0	99.301
TRE	06108900	00 SRF CAPITAL FUN		0	0	0		0	0	0	0.000
SUBTOTAL FOR APPROP:	06108900			0	0	0		0	0	0	0.000
TRE	06108902	00 DEP SRF CONTRAC		635,541	0	635,541		0	635,541	0	100.000
SUBTOTAL FOR APPROP:	06108902			635,541	0	635,541		0	635,541	0	100.000
TRE	06108976	00 EBT PROJECT		10,000	0	10,000		0	0	10,000	0.000
SUBTOTAL FOR APPROP:	06108978			10,000	0	10,000		0	0	10,000	0.000
TRE	06111000	RR PAYMENTS TO WAR		19,000	0	19,000		13,700	5,300	0	27.895
SUBTOTAL FOR APPROP:	06111000			19,000	0	19,000		13,700	5,300	0	27.895
TRE	06115000	RR COMPENSATION TO		2,200,000	0	2,200,000		1,285,038	871,681	43,280	39.622
SUBTOTAL FOR APPROP:	06115000			2,200,000	0	2,200,000		1,285,038	871,681	43,280	39.622
TRE	06115012	00 C.3 S10A M.G.L.		166,553	0	166,553		0	0	166,553	0.000
SUBTOTAL FOR APPROP:	06115012			166,553	0	166,553		0	0	166,553	0.000
TRE	06115500	PP ADDITIONAL LOCA		1,249,948	0	1,249,948		0	0	1,249,948	0.000
SUBTOTAL FOR APPROP:	06115500			1,249,948	0	1,249,948		0	0	1,249,948	0.000
TRE	06115510	PP REIMBURSEMENTS		0	0	0		0	0	0	0.000
SUBTOTAL FOR APPROP:	06115510			0	0	0		0	0	0	0.000
TRE	06115800	PP LOCAL SHARE RAC		1,697,752	0	1,697,752		931,877	765,874	0	45.111
SUBTOTAL FOR APPROP:	06115800			1,697,752	0	1,697,752		931,877	765,874	0	45.111
TRE	06120000	00 RETIREMENT BOAR		1,236,634	0	1,236,634		108,741	949,139	178,753	76.752
SUBTOTAL FOR APPROP:	06120000			1,236,634	0	1,236,634		108,741	949,139	178,753	76.752

COMMONWEALTH OF MASSACHUSETTS  
MMARS - MASSACHUSETTS MANAGEMENT ACCOUNTING AND REPORTING SYSTEMOBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT., APPROV AND SUB TOTALS  
BFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

SECRETARIAT: 06 SECRETARIAT NAME: TREASURER &amp; RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLIGN CEILING
TRE	06120105	RR POLICE/FIREFIGHT		500,000	0	500,000	0	100,000	400,000	20.000
SUBTOTAL FOR APPROP:	06120105			500,000	0	500,000	0	100,000	400,000	20.000
TRE	06121010	DD PENSION LIABILITY		962,680,131	0	962,680,131	0	638,471,454	324,208,676	66.322
SUBTOTAL FOR APPROP:	06121010			962,680,131	0	962,680,131	0	638,471,454	324,208,676	66.322
TRE	06121020	DD SRB PENSION FUN		321,016,749	0	321,016,749	0	321,016,749	0	100.000
SUBTOTAL FOR APPROP:	06121020			321,016,749	0	321,016,749	0	321,016,749	0	100.000
TRE	06121025	00 PENSION LIABILITY		7,837,791	0	7,837,791	0	0	7,837,791	0.000
SUBTOTAL FOR APPROP:	06121025			7,837,791	0	7,837,791	0	0	7,837,791	0.000
TRE	06121506	DD UNFUNDED PENSIO		5,993,706	0	5,993,706	0	5,993,706	0	100.000
SUBTOTAL FOR APPROP:	06121506			5,993,706	0	5,993,706	0	5,993,706	0	100.000
TRE	06121600	00 ST. EMPLOYEES AN		2944,532,632	0	2944,532,632	50,705,848	77,380,902	2816,445,881	2.628
SUBTOTAL FOR APPROP:	06121600			2944,532,632	0	2944,532,632	50,705,848	77,380,902	2816,445,881	2.628
TRE	06122000	DD MISCELLANEOUS R		19,433,757	0	19,433,757	0	11,169,631	8,264,125	57.475
SUBTOTAL FOR APPROP:	06122000			19,433,757	0	19,433,757	0	11,169,631	8,264,125	57.475
TRE	06122600	00 ST. EMPLOYEES MI		9,877	0	9,877	0	0	9,877	0.000
SUBTOTAL FOR APPROP:	06122600			9,877	0	9,877	0	0	9,877	0.000
TRE	06122601	00 ST. EMPLOYEES RE		1,852	0	1,852	0	0	1,852	0.000
SUBTOTAL FOR APPROP:	06122601			1,852	0	1,852	0	0	1,852	0.000
TRE	06122700	00 PENSION RESERVE		3995,653,552	0	3995,653,552	0	0	3995,653,552	0.000
SUBTOTAL FOR APPROP:	06122700			3995,653,552	0	3995,653,552	0	0	3995,653,552	0.000
TRE	06124000	DD MCB FERGUSON IN		275,550	0	275,550	0	138,566	136,983	50.287
SUBTOTAL FOR APPROP:	06124000			275,550	0	275,550	0	138,566	136,983	50.287

RUN DATE: 01/21/99  
RUN TIME: 00:43  
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99-0085-2

C O M M O N W E A L T H O F M A S S A C H U S E T T S  
MMARS - MASSACHUSETTS MANAGEMENT ACCOUNTING AND REPORTING SYSTEM

OBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT., APPROV AND SUB TOTALS  
BFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

SECRETARIAT NAME: TREASURER & RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLIGN CEILING
TRE	062000000 EE COMM ON FIREMEN			700	0	700	0	0	700	0.000
TRE	062000000 RR COMM ON FIREMEN			9,108	0	9,108	8,076	1,032	0	11.331
	SUBTOTAL FOR APPROB:	062000000		9,808	0	9,808	8,076	1,032	700	10.522
TRE	06501700 00 ABANDONED PROPE			65,642,868	0	65,642,868	3,039,688	8,561,416	54,041,764	13.042
	SUBTOTAL FOR APPROB:	06501700		65,642,868	0	65,642,868	3,039,688	8,561,416	54,041,764	13.042
TRE	06502001 00 ADMIN OVERHEAD-			34,924	0	34,924	0	0	34,924	0.000
	SUBTOTAL FOR APPROB:	06502001		34,924	0	34,924	0	0	34,924	0.000
TRE	06506630 00 WITHHOLDING TAX			325,679,693	0	325,679,693	0	318,774,305	6,905,387	97.880
	SUBTOTAL FOR APPROB:	06506630		325,679,693	0	325,679,693	0	318,774,305	6,905,387	97.880
TRE	06506639 00 MEDI-TAX PAY			27,027,830	0	27,027,830	0	27,147,781	-119,950	100.444
	SUBTOTAL FOR APPROB:	06506639		27,027,830	0	27,027,830	0	27,147,781	-119,950	100.444
TRE	06506640 00 WITHHOLDING TAX			107,644,796	0	107,644,796	0	104,744,060	2,900,735	97.305
	SUBTOTAL FOR APPROB:	06506640		107,644,796	0	107,644,796	0	104,744,060	2,900,735	97.305
TRE	06506644 00 EMPLOYEES U.S.S			386,905	0	386,905	0	386,900	5	99.999
	SUBTOTAL FOR APPROB:	06506644		386,905	0	386,905	0	386,900	5	99.999
TRE	06600611 00 UNPAID CHECK NE			27,449,292	0	27,449,292	0	0	27,449,292	0.000
	SUBTOTAL FOR APPROB:	06600611		27,449,292	0	27,449,292	0	0	27,449,292	0.000
TRE	06606600 00 BOND REDEMPTION			1106,011,891	0	1106,011,891	0	998,267,890	107,744,000	90.258
	SUBTOTAL FOR APPROB:	06606600		1106,011,891	0	1106,011,891	0	998,267,890	107,744,000	90.258
TRE	06607111 00 S.O.B. 92A, DEB			2,756,491	0	2,756,491	0	0	2,756,491	0.000
	SUBTOTAL FOR APPROB:	06607111		2,756,491	0	2,756,491	0	0	2,756,491	0.000
TRE	06607121 00 S.O.B. 94A DEBT			19,336,122	0	19,336,122	0	0	19,336,122	0.000
	SUBTOTAL FOR APPROB:	06607121		19,336,122	0	19,336,122	0	0	19,336,122	0.000

C O M M O N W E A L T H O F M A S S A C H U S E T T S  
MMARS - MASSACHUSETTS MANAGEMENT ACCOUNTING AND REPORTING SYSTEM

OBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT., APPROP AND SUB TOTALS  
BFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

SECRETARIAT: 06 SECRETARIAT NAME: TREASURER & RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLGN CEILING
TRE	06607127	00	S.O.B. 96A DEBT	3,994,931	0	3,994,931	0	0	3,994,931	0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>06607127</b>		<b>3,994,931</b>			<b>3,994,931</b>		<b>0</b>	<b>3,994,931</b>	<b>0.000</b>
TRE	06607128	00	S.O.B. 97A DEBT	11,281,235	0	11,281,235	0	0	11,281,235	0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>06607128</b>		<b>11,281,235</b>			<b>0</b>	<b>11,281,235</b>		<b>0</b>	<b>0.000</b>
TRE	06990015	33	BONDED DEBT PAY	1187,000,000	0	1187,000,000	0	677,218,717	509,781,282	57.053
<b>SUBTOTAL FOR APPROP:</b>	<b>06990015</b>		<b>1187,000,000</b>			<b>0</b>	<b>677,218,717</b>		<b>509,781,282</b>	<b>57.053</b>
TRE	06998100	00	GOVT LAND BANK	0	0	0	0	234,535	-234,535	0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>06998100</b>		<b>0</b>			<b>0</b>	<b>0</b>	<b>234,535</b>	<b>-234,535</b>	<b>0.000</b>
TRE	06998101	00	GOVT LAND BANK	0	0	0	0	400	-400	0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>06998101</b>		<b>0</b>			<b>0</b>	<b>0</b>	<b>400</b>	<b>-400</b>	<b>0.000</b>
TRE	06998200	00	GOVT LAND BANK	0	0	0	0	199,600	-199,600	0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>06998200</b>		<b>0</b>			<b>0</b>	<b>0</b>	<b>199,600</b>	<b>-199,600</b>	<b>0.000</b>
TRE	06999100	33	GENERAL, INTERE	71,000,000	0	71,000,000	345,529	31,130,479	39,523,990	43.846
<b>SUBTOTAL FOR APPROP:</b>	<b>06999100</b>		<b>71,000,000</b>			<b>0</b>	<b>71,000,000</b>	<b>345,529</b>	<b>31,130,479</b>	<b>43.846</b>
TRE	06999200	33	DEBT SERVICE AS	13,566,039	0	13,566,039	0	8,045,651	5,520,387	59.307
<b>SUBTOTAL FOR APPROP:</b>	<b>06999200</b>		<b>13,566,039</b>			<b>0</b>	<b>13,566,039</b>	<b>0</b>	<b>8,045,651</b>	<b>5,520,387</b>
TRE	08106646	00	CRIME VICTIM CO	-9,866	0	1,321,000	0	0	1,321,000	0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>08106646</b>		<b>-9,866</b>			<b>0</b>	<b>1,321,000</b>		<b>0</b>	<b>1,321,000</b>
TRE	12013600	00	TAX AND ASSESSM	2,318,977	0	2,318,977	0	0	2,318,977	0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>12013600</b>		<b>2,318,977</b>			<b>0</b>	<b>2,318,977</b>		<b>0</b>	<b>2,318,977</b>
TRE	60339797	00	INTEREST ON NOT	100,000,000	0	100,000,000	0	0	100,000,000	0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>60339797</b>		<b>100,000,000</b>			<b>0</b>	<b>100,000,000</b>		<b>0</b>	<b>100,000,000</b>

C O M M O N W E A L T H O F M A S S A C H U S E T T S  
MMARS - MASSACHUSETTS MANAGEMENT ACCOUNTING AND REPORTING SYSTEM

OBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT., APPROP AND SUB TOTALS  
BFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

SECRETARIAT: 06 TREASURER & RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLGN CEILING
TR <del>E</del>	70706606	00	TECHNICAL EDUCATION	168,603	0	168,603	0	0	168,603	0.000
	SUBTOTAL FOR APPROP:	70706606		168,603	0	168,603	0	0	168,603	0.000
TR <del>E</del>	70706607	00	TECHNICAL EDUCATION	32,318	0	32,318	0	0	32,318	0.000
	SUBTOTAL FOR APPROP:	70706607		32,318	0	32,318	0	0	32,318	0.000
TR <del>E</del>	70706626	00	TECHNICAL EDUCATION	142,000	0	142,000	0	0	142,000	0.000
	SUBTOTAL FOR APPROP:	70706626		142,000	0	142,000	0	0	142,000	0.000
TR <del>E</del>	70706627	00	TECHNICAL EDUCATION	219,000	0	219,000	0	0	219,000	0.000
	SUBTOTAL FOR APPROP:	70706627		219,000	0	219,000	0	0	219,000	0.000
TR <del>E</del>	92216600	00	DARWIN BARNARD	12	0	12	0	0	12	0.000
	SUBTOTAL FOR APPROP:	92216600		12	0	12	0	0	12	0.000
TR <del>E</del>	92216602	00	BENJAMIN H BICK	12	0	12	0	0	12	0.000
	SUBTOTAL FOR APPROP:	92216602		12	0	12	0	0	12	0.000
TR <del>E</del>	92216603	00	FRANKLIN N BLAK	24	0	24	0	0	24	0.000
	SUBTOTAL FOR APPROP:	92216603		24	0	24	0	0	24	0.000
TR <del>E</del>	92216605	00	PHOEBE R CLIFFO	12	0	12	0	0	12	0.000
	SUBTOTAL FOR APPROP:	92216605		12	0	12	0	0	12	0.000
TR <del>E</del>	92216606	00	MARY L CROWELL	181	0	181	0	0	181	0.000
	SUBTOTAL FOR APPROP:	92216606		181	0	181	0	0	181	0.000
TR <del>E</del>	92216607	00	ELIA C DAVIS CE	12	0	12	0	0	12	0.000
	SUBTOTAL FOR APPROP:	92216607		12	0	12	0	0	12	0.000
TR <del>E</del>	92216608	00	SARAH DRAPER CE	12	0	12	0	0	12	0.000
	SUBTOTAL FOR APPROP:	92216608		12	0	12	0	0	12	0.000

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OBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT., APPROV AND SUB TOTALS  
BRY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

SECRETARIAT: 06 SECRETARIAT NAME: TREASURER & RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	8 EXP OF OBLGN CEILING
TRE	92216609	00	AUSTIN B FLETCH	1,204	0	1,204	0	0	0	1,204 0.000
SUBTOTAL FOR APPROP:	92216609			1,204	0	1,204	0	0	0	1,204 0.000
TRE	92216610	00	JULIUS A GEORGE	120	0	120	0	0	0	120 0.000
SUBTOTAL FOR APPROP:	92216610			120	0	120	0	0	0	120 0.000
TRE	92216612	00	ROSE GORDON CEM	22	0	22	0	0	0	22 0.000
SUBTOTAL FOR APPROP:	92216612			22	0	22	0	0	0	22 0.000
TRE	92216613	00	EDWARD R LYMAN	15	0	15	0	0	0	15 0.000
SUBTOTAL FOR APPROP:	92216613			15	0	15	0	0	0	15 0.000
TRE	92216614	00	PHILIP MCBRYAN	60	0	60	0	0	0	60 0.000
SUBTOTAL FOR APPROP:	92216614			60	0	60	0	0	0	60 0.000
TRE	92216615	00	MILES R MOFFAT	30	0	30	0	0	0	30 0.000
SUBTOTAL FOR APPROP:	92216615			30	0	30	0	0	0	30 0.000
TRE	92216616	00	MARY MURPHY CEM	12	0	12	0	0	0	12 0.000
SUBTOTAL FOR APPROP:	92216616			12	0	12	0	0	0	12 0.000
TRE	92216617	00	NEW BRAINTREE C	301	0	301	0	0	0	301 0.000
SUBTOTAL FOR APPROP:	92216617			301	0	301	0	0	0	301 0.000
TRE	92216618	00	ELIZABETH H PAG	12	0	12	0	0	0	12 0.000
SUBTOTAL FOR APPROP:	92216618			12	0	12	0	0	0	12 0.000
TRE	92216619	00	DAVID PARHAM CE	12	0	12	0	0	0	12 0.000
SUBTOTAL FOR APPROP:	92216619			12	0	12	0	0	0	12 0.000
TRE	92216620	00	BESSIE PORTER C	17	0	17	0	0	0	17 0.000
SUBTOTAL FOR APPROP:	92216620			17	0	17	0	0	0	17 0.000

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SECRETARIAT: 06  
 SECRETARIAT NAME: TREASURER & RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLGN CEILING
TR E	92216621	00	PERPETUAL CARE	290,150	0	290,150	0	0	290,150	0.000
	SUBTOTAL FOR APPROP:	92216621		290,150	0	290,150	0	0	290,150	0.000
TR E	92216622	00	JAMES REED CEME	60	0	60	0	0	60	0.000
	SUBTOTAL FOR APPROP:	92216622		60	0	60	0	0	60	0.000
TR E	92216625	00	RICHARDS PLAINV	92	0	92	0	0	92	0.000
	SUBTOTAL FOR APPROP:	92216625		92	0	92	0	0	92	0.000
TR E	92216626	00	SARAH A SAWYER	12	0	12	0	0	12	0.000
	SUBTOTAL FOR APPROP:	92216626		12	0	12	0	0	12	0.000
TR E	92216627	00	ADELINE A SHAW	18	0	18	0	0	18	0.000
	SUBTOTAL FOR APPROP:	92216627		18	0	18	0	0	18	0.000
TR E	92216628	00	HANNAH W SMITH	6	0	6	0	0	6	0.000
	SUBTOTAL FOR APPROP:	92216628		6	0	6	0	0	6	0.000
TR E	92216630	00	CAROLYN REES ST	12	0	12	0	0	12	0.000
	SUBTOTAL FOR APPROP:	92216630		12	0	12	0	0	12	0.000
TR E	92216631	00	SILBERT CEMETER	60	0	60	0	0	60	0.000
	SUBTOTAL FOR APPROP:	92216631		60	0	60	0	0	60	0.000
TR E	92216632	00	ADELBERT D THAY	120	0	120	0	0	120	0.000
	SUBTOTAL FOR APPROP:	92216632		120	0	120	0	0	120	0.000
TR E	92216633	00	FRANCIS N THAYE	12	0	12	0	0	12	0.000
	SUBTOTAL FOR APPROP:	92216633		12	0	12	0	0	12	0.000
TR E	92216634	00	TOWNSEND GROUND	12	0	12	0	0	12	0.000
	SUBTOTAL FOR APPROP:	92216634		12	0	12	0	0	12	0.000

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OBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT, APPROP AND SUB TOTALS  
BFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

**SECRETARIAT: 06 SECRETARIAT NAME: TREASURER & RECEIVER GENERAL**

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLGN CEILING
TRE	92216650	00	DARWIN BARNARD	200	0	200	0	0	200 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216650</b>			<b>200</b>	<b>0</b>	<b>200</b>	<b>0</b>	<b>0</b>	<b>200 0.000</b>
TRE	92216652	00	BENJAMIN H BICK	200	0	200	0	0	200 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216652</b>			<b>200</b>	<b>0</b>	<b>200</b>	<b>0</b>	<b>0</b>	<b>200 0.000</b>
TRE	92216653	00	FRANKLIN N BLAK	400	0	400	0	0	400 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216653</b>			<b>400</b>	<b>0</b>	<b>400</b>	<b>0</b>	<b>0</b>	<b>400 0.000</b>
TRE	92216654	00	ABBIE BODWELL C	330	0	330	0	0	330 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216654</b>			<b>330</b>	<b>0</b>	<b>330</b>	<b>0</b>	<b>0</b>	<b>330 0.000</b>
TRE	92216655	00	PHOEBE R CLIFFO	200	0	200	0	0	200 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216655</b>			<b>200</b>	<b>0</b>	<b>200</b>	<b>0</b>	<b>0</b>	<b>200 0.000</b>
TRE	92216656	00	MARY L.CROWELL	3,000	0	3,000	0	0	3,000 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216656</b>			<b>3,000</b>	<b>0</b>	<b>3,000</b>	<b>0</b>	<b>0</b>	<b>3,000 0.000</b>
TRE	92216657	00	ELLA C DAVIS CR	200	0	200	0	0	200 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216657</b>			<b>200</b>	<b>0</b>	<b>200</b>	<b>0</b>	<b>0</b>	<b>200 0.000</b>
TRE	92216658	00	SARA DRAPER CEM	400	0	400	0	0	400 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216658</b>			<b>400</b>	<b>0</b>	<b>400</b>	<b>0</b>	<b>0</b>	<b>400 0.000</b>
TRE	92216659	00	AUSTIN B FLETCH	25,000	0	25,000	0	0	25,000 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216659</b>			<b>25,000</b>	<b>0</b>	<b>25,000</b>	<b>0</b>	<b>0</b>	<b>25,000 0.000</b>
TRE	92216660	00	JULIUS A GEORGE	2,000	0	2,000	0	0	2,000 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216660</b>			<b>2,000</b>	<b>0</b>	<b>2,000</b>	<b>0</b>	<b>0</b>	<b>2,000 0.000</b>
TRE	92216661	00	TAMAR A GOLDTHW	3,800	0	3,800	0	0	3,800 0.000
<b>SUBTOTAL FOR APPROP:</b>	<b>92216661</b>			<b>3,800</b>	<b>0</b>	<b>3,800</b>	<b>0</b>	<b>0</b>	<b>3,800 0.000</b>

C O M M O N W E A L T H O F M A S S A C H U S E T T S  
M M A R S - M A S S A C H U S E T T S M A N A G E M E N T A C C O U N T I N G A N D R E P O R T I N G S Y S T E M

OBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT., APPROV AND SUB TOTALS  
BFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

SECRETARIAT: 06 SECRETARIAT NAME: TREASURER & RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLGN CEILING
TRE	92216662	00	ROSE GORDON CEM	375	0	375	0	0	0	375 0.000
SUBTOTAL FOR APPROP:	92216662			375	0	375	0	0	0	375 0.000
TRE	92216663	00	EDWARD R LYMAN	250	0	250	0	0	0	250 0.000
SUBTOTAL FOR APPROP:	92216663			250	0	250	0	0	0	250 0.000
TRE	92216664	00	PHILIP MCBRYAN	1,000	0	1,000	0	0	0	1,000 0.000
SUBTOTAL FOR APPROP:	92216664			1,000	0	1,000	0	0	0	1,000 0.000
TRE	92216665	00	MILES R MOFFAT	500	0	500	0	0	0	500 0.000
SUBTOTAL FOR APPROP:	92216665			500	0	500	0	0	0	500 0.000
TRE	92216666	00	MARY MURPHY CEM	200	0	200	0	0	0	200 0.000
SUBTOTAL FOR APPROP:	92216666			200	0	200	0	0	0	200 0.000
TRE	92216667	00	NEW BRAINTREE C	5,000	0	5,000	0	0	0	5,000 0.000
SUBTOTAL FOR APPROP:	92216667			5,000	0	5,000	0	0	0	5,000 0.000
TRE	92216668	00	ELIZABETH H PAG	200	0	200	0	0	0	200 0.000
SUBTOTAL FOR APPROP:	92216668			200	0	200	0	0	0	200 0.000
TRE	92216669	00	DAVID PARHAM CEM	200	0	200	0	0	0	200 0.000
SUBTOTAL FOR APPROP:	92216669			200	0	200	0	0	0	200 0.000
TRE	92216670	00	BESSIE PORTER C	250	0	250	0	0	0	250 0.000
SUBTOTAL FOR APPROP:	92216670			250	0	250	0	0	0	250 0.000
TRE	92216671	00	P E R P E T U A L C A R E	17,516	0	17,516	0	0	0	17,516 0.000
SUBTOTAL FOR APPROP:	92216671			17,516	0	17,516	0	0	0	17,516 0.000
TRE	92216672	00	JAMES REED CEME	1,000	0	1,000	0	0	0	1,000 0.000
SUBTOTAL FOR APPROP:	92216672			1,000	0	1,000	0	0	0	1,000 0.000

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OBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT., APPROP AND SUB TOTALS  
BFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

06  
SECRETARIAT NAME: TREASURER & RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL, AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLGN CEILING
TRE	92216674	00	RICHARDS NEWELL	1,000	0	1,000	0	0	0	1,000
	SUBTOTAL FOR APPROP:		92216674	1,000	0	1,000	0	0	0	1,000
TRE	92216675	00	RICHARDS PLAINV	1,000	0	1,000	0	0	0	1,000
	SUBTOTAL FOR APPROP:		92216675	1,000	0	1,000	0	0	0	1,000
TRE	92216676	00	SARAH A SAWYER	200	0	200	0	0	0	200
	SUBTOTAL FOR APPROP:		92216676	200	0	200	0	0	0	200
TRE	92216677	00	ADELINE A SHAW	300	0	300	0	0	0	300
	SUBTOTAL FOR APPROP:		92216677	300	0	300	0	0	0	300
TRE	92216678	00	HANNAH W SMITH	300	0	300	0	0	0	300
	SUBTOTAL FOR APPROP:		92216678	300	0	300	0	0	0	300
TRE	92216679	00	FRANK A SPAULDI	300	0	300	0	0	0	300
	SUBTOTAL FOR APPROP:		92216679	300	0	300	0	0	0	300
TRE	92216680	00	CAROLYN REES ST	200	0	200	0	0	0	200
	SUBTOTAL FOR APPROP:		92216680	200	0	200	0	0	0	200
TRE	92216681	00	SILBERT CEMETER	1,000	0	1,000	0	0	0	1,000
	SUBTOTAL FOR APPROP:		92216681	1,000	0	1,000	0	0	0	1,000
TRE	92216682	00	ADELBERT D THAY	2,000	0	2,000	0	0	0	2,000
	SUBTOTAL FOR APPROP:		92216682	2,000	0	2,000	0	0	0	2,000
TRE	92216683	00	FRANCIS N THAYE	200	0	200	0	0	0	200
	SUBTOTAL FOR APPROP:		92216683	200	0	200	0	0	0	200
TRE	92216684	00	TOWNSEND GROUND	200	0	200	0	0	0	200
	SUBTOTAL FOR APPROP:		92216684	200	0	200	0	0	0	200

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OBLIGATION CONTROL REPORT FOR SECRETARIATS  
SECRETARIAT, DEPT., APPROV AND SUB TOTALS  
BFY 1999 THROUGH PERIOD 07 AS OF 01/20/1999

SECRETARIAT NAME: 06 TREASURER & RECEIVER GENERAL

DPT	APPROP	SB	APPROP NAME	TOTAL AVAILABLE	PLANNED SAVINGS	OBLIGATION CEILING	PRE-ENC & ENCUMB	EXPENDED	UNCOMMITTED BALANCE	% EXP OF OBLGN CEILING
SUB TOTAL FOR DEPARTMENT: TRE				12303,377,934	0	12304,708,801	64,682,875	3540,739,579	8699,286,345	28.775
WPA 06100136 00 DRINKING WATER				32,687,442	0	32,687,442	0	257,080	32,430,362	0.786
SUBTOTAL FOR APPROP: 06100136				32,687,442	0	32,687,442	0	257,080	32,430,362	0.786
WPA 06108969 00 WPA TITLE V HOW				26,706,000	0	26,706,000	545,000	161,000	26,000,000	0.603
SUBTOTAL FOR APPROP: 06108969				26,706,000	0	26,706,000	545,000	161,000	26,000,000	0.603
WPA 06502000 00 C.29C, S.4(C) 95(				693,885	0	693,885	0	635,541	58,344	91.592
SUBTOTAL FOR APPROP: 06502000				693,885	0	693,885	0	635,541	58,344	91.592
WPA 06502040 00 WPAT 48				2,655,409	0	2,655,409	0	2,272,650	382,759	85.586
SUBTOTAL FOR APPROP: 06502040				2,655,409	0	2,655,409	0	2,272,650	382,759	85.586
WPA 06503919 00 WPAT - FINANCIA				970,907	0	970,907	0	0	970,907	0.000
SUBTOTAL FOR APPROP: 06503919				970,907	0	970,907	0	0	970,907	0.000
SUB TOTAL FOR DEPARTMENT: WPA				63,713,644	0	63,713,644	545,000	3,326,271	59,842,372	5.221
TOTAL FOR SECRETARIAT: 06				14373,633,730	0	14375,229,527	125,810,198	5315,519,379	8933,899,949	36.977



EXHIBIT IV





## EXHIBIT V

H.S.

Chapter 647

## THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

## AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

## EXHIBIT V (Continued)

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Include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

## EXHIBIT V (Continued)

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

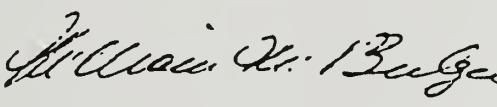
House of Representatives, December 21, 1989.

Passed to be enacted,

 George T. Thurman, Speaker.

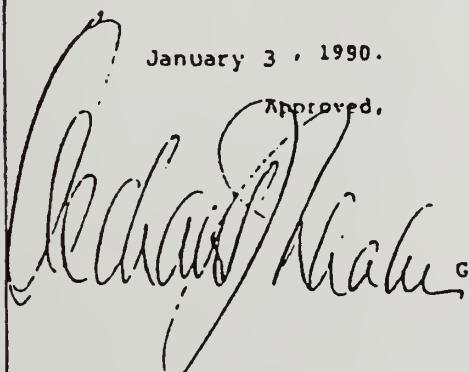
In Senate, December 22, 1989.

Passed to be enacted,

 William D. Budge, President.

January 3, 1990.

Approved,

 Richard W. Riley Governor.





